

PRICING SUPPLEMENT

As of June 22, 2023

PROHIBITION OF SALES TO EEA RETAIL INVESTORS – The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (the “**EEA**”). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, “**MiFID II**”); or (ii) a customer within the meaning of Directive (EU) 2016/97 (the “**Insurance Distribution Directive**”), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently no key information document required by Regulation (EU) No 1286/2014 (as amended, the “**PRIIPs Regulation**”) for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

PROHIBITION OF SALES TO UK RETAIL INVESTORS – The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the United Kingdom (the “**UK**”). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 (the “**EUWA**”); or (ii) a customer within the meaning of the provisions of the Financial Services and Markets Act 2000 (the “**FSMA**”) and any rules or regulations made under the FSMA to implement Directive (EU) 2016/97, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA. Consequently no key information document required by Regulation (EU) No 1286/2014 as it forms part of domestic law by virtue of the EUWA (the “**UK PRIIPs Regulation**”) for offering or selling the Notes or otherwise making them available to retail investors in the UK has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the UK may be unlawful under the UK PRIIPs Regulation.

In the UK, this communication is being distributed only to, and is directed only at, qualified investors (as defined in the Prospectus Regulation) who are (i) persons having professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended, the “**Order**”), or (ii) high net worth entities and other persons to whom it may be lawfully be communicated falling within Article 49(2)(a) to (d) of the Order (all such persons together being referred to as “**relevant persons**”). The Notes are only available to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire the Notes in the UK will be engaged in only with, relevant persons. Any person in the UK who is not a relevant person should not act or rely on the Offering Memorandum (as defined below) or any of its contents.

PURSUANT TO CIRCULAR 3/2012 ISSUED BY BANCO DE MÉXICO AND PUBLISHED IN THE FEDERAL OFFICIAL GAZETTE (*DIARIO OFICIAL DE LA FEDERACIÓN*) ON MARCH 2, 2012, AND AS AMENDED FROM TIME TO TIME, INCLUDING THE AMENDMENT PUBLISHED ON APRIL 13, 2023, IN THE FEDERAL OFFICIAL GAZETTE THROUGH CIRCULAR 16/2018, NO RELATED PARTY OF THE ISSUER, AS DEFINED IN ARTICLE 73 OF THE MEXICAN BANKING LAW, MAY ACQUIRE, DIRECTLY OR INDIRECTLY, ANY NOTES TO BE ISSUED PURSUANT TO THE OFFERING MEMORANDUM.

**BBVA México S.A., Institución de Banca Múltiple, Grupo Financiero BBVA México,
acting through its Texas Agency**

**Issue of U.S.\$1,000,000,000
8.450% Fixed Reset Subordinated Preferred Tier 2 Capital Notes due 2038**

under the U.S.\$10,000,000,000 Medium-Term Notes Program

PART A – CONTRACTUAL TERMS

Terms used herein shall be deemed to be defined as such for the purposes of the terms and conditions set forth in the section entitled “Description of the Notes” in the Offering Memorandum, dated April 28, 2023 and the supplement to it, dated June 2, 2023 (together, the “**Offering Memorandum**”). This document constitutes the Pricing Supplement of the Notes described herein and must be read in conjunction with the Offering Memorandum. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of this Pricing Supplement and the Offering Memorandum. The Offering Memorandum has been published on the website of the Irish Stock Exchange plc trading as Euronext Dublin (“**Euronext Dublin**”).

- | | | |
|----|-----------------------------------|--|
| 1. | Issuer: | BBVA México S.A., Institución de Banca Múltiple, Grupo Financiero BBVA México, acting through its Texas Agency |
| 2. | (a) Title: | U.S.\$1,000,000,000 8.450% Fixed Reset Subordinated Preferred Tier 2 Capital Notes due 2038 |
| | (b) Series Number: | 2 |
| | (c) Tranche Number: | 1 |
| 3. | Specified Currency or Currencies: | U.S. dollars (U.S.\$) |
| 4. | Aggregate Nominal Amount: | U.S.\$1,000,000,000 |
| 5. | Issue Price: | 100.00% of the Aggregate Nominal Amount, plus accrued interest from the Issue Date |
| 6. | (a) Minimum Denominations: | U.S.\$200,000 and integral multiples of U.S.\$1,000 in excess thereof |
| | (b) Calculation Amount: | U.S.\$1,000 |
| 7. | (a) Issue Date: | June 29, 2023 |
| | (b) Interest Commencement Date: | Issue Date |
| 8. | Maturity Date: | June 29, 2038 |
| 9. | Interest Basis: | Fixed Reset Rate
(see paragraph 14 below) |

10. Change of Interest Basis: N/A
11. Investor Put/Issuer Call Option: Issuer Call Option
(see paragraphs 16, 18 and 19 below)
12. Status of the Notes: Subordinated
- (a) Status of Senior Notes: N/A
- (b) Status of Subordinated Notes: Tier 2 Subordinated
- (c) Date of Board approval for issuance of Notes obtained: Resolution dated March 4, 2019

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

13. Fixed Rate Note Provisions: N/A
14. Fixed Reset Note Provisions: Applicable
- (a) Initial Fixed Reset Interest Rate: 8.450% per annum payable in arrears on each Interest Payment Date up to, but excluding, the Fixed Reset Date
- (b) Interest Payment Date(s): June 29 and December 29 of each year up to and including the Maturity Date.
- If any Interest Payment Date would otherwise fall on a date that is not a Business Day, the required payment of interest shall be made on the next succeeding Business Day, with the same force and effect as if made on such Interest Payment Date, and no further interest shall accrue as a result of the delay.
- For purposes hereof, the term “**Business Day**” is defined in the Indenture for the Notes as any day other than a Saturday or a Sunday, or a day on which banking institutions in The City of New York, New York or Mexico City, Mexico are authorized or required by law or executive or administrative order to remain closed.
- (c) Initial Fixed Reset Interest Period: From, and including, the Issue Date to, but excluding, June 29, 2033 (the “**Optional Call Date**”).
- (d) Regular Record Date(s): June 14 and December 14 of each year
- (e) Fixed Coupon Dollar Amount to, but excluding, the Fixed Reset Date: U.S.\$42.25 per Calculation Amount

- (f) Fixed Day Count Fraction: 30/360
- (g) Fixed Reset Date: June 29, 2033
- (h) Subsequent Reset Date(s): N/A
- (i) Reset Determination Date: Two Business Days prior to the Fixed Reset Date
- (j) Reset Reference Rate: Treasury Yield (as defined in the Offering Memorandum)
- (k) Reset Margin: +466.1 basis points
- (l) Calculation Agent: Unless the Issuer has validly called all outstanding Notes for redemption on or prior to the Fixed Reset Date, the Issuer will appoint a calculation agent with respect to the Notes prior to the Reset Determination Date preceding the Fixed Reset Date.

15. Floating Rate Note Provisions: N/A

PROVISIONS RELATING TO REDEMPTION

- 16. Tax Redemption: Applicable (in whole, but not in part)
- 17. Make-Whole Redemption: N/A
- 18. Special Event Redemption: Applicable (in whole, but not in part)
- Notice Periods: Minimum period: 30 days
Maximum period: 60 days
- 19. Subordinated Notes Optional Redemption: Applicable (in whole or in part)
 - (a) Subordinated Notes Optional Redemption Date: Optional Call Date
 - (b) Notice Periods: Minimum period: 30 days
Maximum period: 60 days
- 20. Early Redemption Amount payable on redemption for taxation reasons, on an event of default or upon the occurrence of a Special Event Redemption or Subordinated Notes Optional Redemption: U.S.\$1,000 per Calculation Amount
(For the avoidance of doubt, such amount shall include accrued and unpaid interest due on, or with respect to, the Notes, plus additional amounts, if any, up to, but excluding, the date of redemption.)
- 21. Final Redemption Amount: U.S.\$1,000 per Calculation Amount

(For the avoidance of doubt, such amount shall include accrued and unpaid interest due on, or with respect to, the Notes, plus additional amounts, if any, up to, but excluding, the date of redemption.)

22. Investor Put: N/A

GENERAL PROVISIONS APPLICABLE TO THE NOTES

23. Form of Notes: Registered Notes:

Regulation S Global Note registered in the name of a nominee for DTC

Rule 144A Global Note registered in the name of a nominee for DTC

24. Additional Notes: N/A

25. Additional Events of Default: N/A

26. Other Terms: For the purposes of the Notes:

“**Write-Down Amount**” means an (i) amount of the then-outstanding principal amount of the Notes that would be sufficient, together with any concurrent pro rata Write-Down or conversion of any other Tier 2 capital instruments issued by the Bank and the then outstanding (after taking into account the effect of the conversion or Write-Down of any loss-absorbing Tier 1 capital instruments issued by the Bank and then outstanding, if applicable), to return its Fundamental Capital ratio to the levels of then-applicable Fundamental Capital ratio required by the CNBV in accordance with Section IX, b) of Annex 1-S of the General Rules Applicable to Mexican Banks or any successor regulation, which as of the date hereof is, including the Capital Conservation Buffer, 7% plus the amount required to restore any Countercyclical Capital Supplement and any Systemically Important Bank Capital Supplement to the minimum amounts required under the Mexican Capitalization Requirements on such Write-Down Date; or (ii) if any Write-Down of the then-outstanding principal amount, together with any concurrent *pro rata* Write-Down or conversion of any other Tier 2 capital instruments issued by the Bank and the then

outstanding (after taking into account the effect of the conversion or Write-Down of any loss-absorbing Tier 1 capital instruments issued by the Bank and then outstanding, if applicable), would be insufficient to return the Bank's Fundamental Capital ratio to the aforementioned amount described in clause (i) above, then the amount necessary to reduce the then-outstanding principal amount of each outstanding Note to zero.

As required under the Mexican Capitalization Requirements, a full Write-Down (whereby the principal amount of the Notes has been written down to zero) shall be completed (1) after giving effect to the Write-Down or conversion of any loss absorbing Tier 1 capital instruments issued by the Bank and then outstanding, if applicable, and (2) before any public funds are contributed or any public assistance is provided to the Bank in the terms of Article 148, Section II, Subsections a) and b) of the Mexican Banking Law, including, among others, in the form of (i) subscription of shares, (ii) granting of loans, (iii) payment of the Bank's liabilities, (iv) granting of guaranties and (v) the transfer of assets and liabilities.

PURPOSE OF PRICING SUPPLEMENT

This Pricing Supplement comprises the pricing supplement required for issue and admission to trading on Euronext Dublin (the "**Global Exchange Market**") and for listing on the Official List of Euronext Dublin of the Notes described herein pursuant to the listing of the U.S.\$10,000,000,000 Medium-Term Note Program of BBVA México S.A., Institución de Banca Múltiple, Grupo Financiero BBVA México.

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Signed on behalf of BBVA México S.A., Institución de Banca Múltiple, Grupo Financiero BBVA México,
acting through its Texas Agency:

By:  _____

Name: Luis Ignacio de la Luz Dávalos
Title: Chief Financial Officer

By:  _____

Name: Beatriz Muñoz Villa
Title: Deputy Chief Financial Officer

PART B – OTHER INFORMATION

1. LISTING AND ADMISSION TO TRADING

- | | | |
|-------|---|--|
| (i) | Listing: | Application has been made for the Notes to be admitted to the Official List of Euronext Dublin. |
| (ii) | Admission to trading: | Application has been made for the Notes to be admitted to trading on the Global Exchange Market. |
| (iii) | Estimate of net proceeds (gross proceeds less commissions): | U.S.\$996,500,000 |
| (iv) | Estimate of total expenses related to admission to trading: | €1,000 |

2. RATINGS

- | | |
|----------|---|
| Ratings: | The Notes to be issued are expected to be rated: Baa3 / BB (Moody's / Fitch). |
|----------|---|

3. INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE ISSUE

Save for any fees payable to the Dealers, so far as the Issuer is aware, no person involved in the offer of the Notes has an interest material to the offer. The Dealers and their affiliates have engaged and may in the future engage in investment banking and/or commercial banking transactions with, and may perform other services for, the Issuer and its affiliates in the ordinary course of business.

4. USE OF PROCEEDS

The Bank intends to use the net proceeds to strengthen its capital ratios and for general corporate purposes.

5. YIELD

- | | |
|----------------------|---|
| Indication of yield: | 8.450% per annum in respect of the Initial Fixed Rate period. |
|----------------------|---|

The yield above is in relation to the Optional Call Date and is calculated at the Issue Date on the basis of the Issue Price. It is not an indication of future yield.

6. OPERATIONAL INFORMATION

- | | | |
|------|------------|--|
| (i) | ISIN Code: | 144A Note: US07336UAA16
Reg. S Note: USP1S81BAA64 |
| (ii) | CUSIP: | 144A Note: 07336UAA1 |

Reg. S Note: P1S81BAA6

- (iii) Issuer Legal Entity Identifier Code: 549300WIWQK5Q9MCUN92
- (iv) Clearing System(s): DTC
- (v) Names and addresses of additional Agent(s) (if any): The Bank of New York Mellon will act as trustee, registrar, transfer agent and paying agent.

The Bank of New York Mellon
240 Greenwich Street, Floor 7 East
New York, New York 10286
United States of America

- (vi) Delivery: Delivery free of payment

7. DISTRIBUTION

- (i) If syndicated, names and addresses of Dealers and underwriting commitments:

BBVA Securities Inc.
1345 Avenue of the Americas
New York, New York 10105
United States of America

Underwriting commitment: U.S.\$250,000,000

Credit Agricole Securities (USA) Inc.
1301 Avenue of the Americas
New York, New York 10019
United States of America

Underwriting commitment: U.S.\$250,000,000

Goldman Sachs & Co. LLC
200 West Street
New York, New York 10282
United States of America

Underwriting commitment: U.S.\$250,000,000

J.P. Morgan Securities LLC
383 Madison Avenue
New York, New York 10179
United States of America

Underwriting commitment: U.S.\$250,000,000

- (ii) Arranger(s): N/A
- (iii) Stabilizing Manager(s) (if any): N/A

- | | | |
|--------|---|---|
| (iv) | If non-syndicated, name and address of Dealer(s): | N/A |
| (v) | Total commissions and concessions: | 0.35% of the Aggregate Nominal Amount |
| (vi) | U.S. Selling Restrictions: | Reg. S Compliance Category 2, Rule 144A |
| (vii) | Prohibition of Sales to EEA Retail Investors: | Applicable |
| (viii) | Prohibition of Sales to UK Retail Investors: | Applicable |

THE NOTES WILL BE UNSECURED AND WILL NOT BE INSURED OR GUARANTEED BY ANY OF THE BANK'S SUBSIDIARIES OR AFFILIATES, INCLUDING OUR PARENT COMPANY OR BY THE SAVINGS PROTECTION AGENCY (*INSTITUTO PARA LA PROTECCIÓN AL AHORRO BANCARIO*, OR "IPAB") OR ANY OTHER MEXICAN GOVERNMENTAL AGENCY, AND THE NOTES ARE NOT CONVERTIBLE, BY THEIR TERMS, INTO ANY OF OUR DEBT SECURITIES, SHARES OR ANY OF OUR EQUITY CAPITAL OR ANY DEBT SECURITIES, SHARES OR EQUITY CAPITAL OF ANY OF ITS SUBSIDIARIES OR AFFILIATES. THE NOTES WILL BE GOVERNED BY NEW YORK LAW; HOWEVER, CERTAIN REGULATORY AND TAX MATTERS AFFECTING THE NOTES WILL BE GOVERNED BY THE LAWS OF MEXICO AS DESCRIBED UNDER "DESCRIPTION OF THE NOTES—GOVERNING LAW; CONSENT TO JURISDICTION" IN THE OFFERING MEMORANDUM.

WE HAVE THE OPTION, BUT NOT THE OBLIGATION, TO REDEEM THE NOTES, SUBJECT TO CERTAIN CONDITIONS SET OUT IN THE OFFERING MEMORANDUM, ON THE OPTIONAL CALL DATE, OR AT ANY TIME UPON THE OCCURRENCE OF A WITHHOLDING TAX EVENT (AS DEFINED IN THE OFFERING MEMORANDUM) OR UPON THE OCCURRENCE OF A SPECIAL EVENT (AS DEFINED IN THE OFFERING MEMORANDUM) AFFECTING THE NOTES. SEE "DESCRIPTION OF THE NOTES—OTHER TERMS AND CONDITIONS APPLICABLE TO THE SENIOR AND SUBORDINATED NOTES—SUBORDINATED NOTES OPTIONAL REDEMPTION AND SPECIAL EVENT REDEMPTION OF SUBORDINATED NOTES" AND "—REDEMPTION OF NOTES PRIOR TO MATURITY SOLELY FOR TAXATION REASONS" IN THE OFFERING MEMORANDUM. PRINCIPAL AND INTEREST ON THE NOTES WILL BE DEFERRED AND WILL NOT BE PAID UNDER CERTAIN CIRCUMSTANCES. IF A TRIGGER EVENT (AS DEFINED IN THE OFFERING MEMORANDUM) OCCURS, THE PRINCIPAL AMOUNT OF THE NOTES WILL BE WRITTEN-DOWN AS DESCRIBED IN THE OFFERING MEMORANDUM. IF A WRITE-DOWN OCCURS, THE WRITTEN-DOWN PRINCIPAL, AND ANY INTEREST ACCRUED WITH RESPECT THERETO DURING ANY SUSPENSION PERIOD, WILL BE CANCELLED. THE DEFERRAL OF INTEREST IN ACCORDANCE WITH THE PROCEDURES SET FORTH IN THE SUBORDINATED NOTES INDENTURE AND THE OFFERING MEMORANDUM WILL NOT CONSTITUTE AN EVENT OF DEFAULT UNDER THE SUBORDINATED NOTES INDENTURE. SEE "DESCRIPTION OF THE NOTES—TRIGGER EVENT AND WRITE-DOWN" IN THE OFFERING MEMORANDUM. IF A CAPITAL RATIOS EVENT OR A MEXICAN REGULATORY EVENT (IN EACH CASE, AS DEFINED IN THE OFFERING MEMORANDUM) OCCURS, WE WILL SUSPEND PAYMENT OF INTEREST ON THE NOTES OR PAYMENT OF PRINCIPAL AT MATURITY UNTIL THE END OF THE RELATED

SUSPENSION PERIOD (AS DEFINED IN THE OFFERING MEMORANDUM), SUBJECT TO THE OCCURRENCE OF A WRITE-DOWN IN THE EVENT THAT DURING SUCH SUSPENSION PERIOD A TRIGGER EVENT SHALL HAVE OCCURRED. SEE “DESCRIPTION OF THE NOTES—TREATMENT OF INTEREST AND PRINCIPAL DURING A SUSPENSION PERIOD” IN THE OFFERING MEMORANDUM.

SUPPLEMENT, DATED JUNE 2, 2023
TO BASE OFFERING MEMORANDUM, DATED APRIL 28, 2023



BBVA México, S.A.,
Institución de Banca Múltiple, Grupo Financiero BBVA México,
acting directly or through its Texas Agency

U.S.\$10,000,000,000 Medium-Term Note Program

BBVA México, S.A., Institución de Banca Múltiple, Grupo Financiero BBVA México, a multi-purpose bank incorporated in accordance with the laws of the United Mexican States, or Mexico (the “**Bank**”), acting through its Texas Agency unless the applicable pricing supplement specifies that the Bank is acting directly (the “**Issuer**”), has prepared this supplement (this “**Supplement**”) to supplement and be read in conjunction with the base offering memorandum, dated April 28, 2023 (the “**Offering Memorandum**”), which constitutes listing particulars for the purposes of listing of Notes on the Global Exchange Market of the Irish Stock Exchange plc trading as Euronext Dublin (“**Euronext Dublin**”).

THE SUBORDINATED PREFERRED TIER 2 CAPITAL NOTES WILL BE UNSECURED AND WILL NOT BE INSURED OR GUARANTEED BY ANY OF THE BANK’S SUBSIDIARIES OR AFFILIATES, INCLUDING OUR PARENT COMPANY, OR BY THE SAVINGS PROTECTION AGENCY (INSTITUTO PARA LA PROTECCIÓN AL AHORRO BANCARIO, OR “IPAB”) OR ANY OTHER MEXICAN GOVERNMENTAL AGENCY, AND THE SUBORDINATED PREFERRED TIER 2 CAPITAL NOTES ARE NOT CONVERTIBLE, BY THEIR TERMS, INTO ANY OF OUR DEBT SECURITIES, SHARES OR ANY OF OUR EQUITY CAPITAL OR ANY DEBT SECURITIES, SHARES OR EQUITY CAPITAL OF ANY OF OUR SUBSIDIARIES OR AFFILIATES. THE SUBORDINATED PREFERRED TIER 2 CAPITAL NOTES WILL BE GOVERNED BY NEW YORK LAW; HOWEVER, CERTAIN REGULATORY AND TAX MATTERS AFFECTING THE SUBORDINATED PREFERRED TIER 2 CAPITAL NOTES WILL BE GOVERNED BY THE LAWS OF MEXICO AS DESCRIBED UNDER “THE OFFERING—GOVERNING LAW” IN THE PRICING SUPPLEMENT.

The Offering Memorandum does not comprise a prospectus for the purposes of Regulation (EU) 2017/1129 (the “**Prospectus Regulation**”). The Offering Memorandum and this Supplement have not been reviewed or approved by any regulator which is a competent authority under the Prospectus Regulation. Application has been made to Euronext Dublin for the approval of this document as supplementary listing particulars. Copies of this Supplement and the Offering Memorandum will be available on the website of Euronext Dublin.

Terms defined in the Offering Memorandum shall have the same meaning when used in this Supplement. To the extent that there is any inconsistency between any statement in this Supplement and any other statement in the Offering Memorandum, the statements in this Supplement will prevail.

The purpose of this Supplement is to:

- Incorporate by reference into the Offering Memorandum the Unaudited Interim Condensed Consolidated Financial Statements as of March 31, 2023 and for the three months ended March 31, 2023 and 2022, together with the independent auditors’ limited review report with respect thereto (the “**First Quarter Financial Statements**”).
- Incorporate by reference into the Offering Memorandum the Management’s Discussion and Analysis of Financial Condition and Results of Operations as of March 31, 2023 and for the three months ended March 31, 2023 and 2022 included herein.

- Replace the sentence under sub-section “Significant Change in Financial or Trading Position” of the “General Information” section of the Offering Memorandum with the following statement:

“There has been no significant change in the financial or trading position of the Bank since March 31, 2023.”

For the avoidance of doubt, if any documents incorporated by reference themselves incorporate any information or other documents therein, either expressly or implicitly, such information or other documents will not form part of this Supplement or the Offering Memorandum, except where such information or other documents are specifically incorporated by reference or attached to this Supplement.

The Bank accepts responsibility for the information contained in this Supplement. To the best of the knowledge and belief of the Bank (having taken all reasonable care to ensure that such is the case) the information contained in this Supplement is in accordance with the facts and does not omit anything likely to affect the import of such information.

Except as disclosed in this Supplement, no significant new factor, material mistake or inaccuracy relating to the information included in the Offering Memorandum has arisen or been noted, as the case may be, since the date of publication of the Offering Memorandum.

We have not and will not register the Notes under the United States Securities Act of 1933, as amended (the “Securities Act”), or any securities laws of any state or any other jurisdiction. The Notes may not be offered or sold within the United States or to U.S. persons, except to qualified institutional buyers in reliance on the exemption from registration provided by Rule 144A (“Rule 144A”) under the Securities Act and to certain non-U.S. persons in offshore transactions in reliance on Regulation S (“Regulation S”) under the Securities Act. You are hereby notified that sellers of the Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A or any state securities laws. See “Plan of Distribution” and “Transfer Restrictions” in the Offering Memorandum.

Neither the Mexican National Banking and Securities Commission (*Comisión Nacional Bancaria y de Valores*, or the “CNBV”) nor the U.S. Securities and Exchange Commission, nor any state or foreign securities commission or regulatory authority, has approved or disapproved of the Notes nor have any of the foregoing authorities passed upon or endorsed the merits of an offering of the Notes or the accuracy, adequacy or completeness of this Supplement or the Offering Memorandum. Any representation to the contrary is a criminal offense.

THE NOTES HAVE NOT BEEN AND WILL NOT BE REGISTERED WITH THE MEXICAN NATIONAL SECURITIES REGISTRY (*REGISTRO NACIONAL DE VALORES, OR “RNVV”*) MAINTAINED BY THE CNBV AND, THEREFORE, MAY NOT BE OFFERED OR SOLD PUBLICLY IN MEXICO, EXCEPT THAT THE NOTES MAY PRIVATELY BE OFFERED OR SOLD TO INVESTORS THAT QUALIFY AS INSTITUTIONAL OR QUALIFIED INVESTORS IN MEXICO SOLELY PURSUANT TO THE PRIVATE PLACEMENT EXEMPTION SET FORTH IN ARTICLE 8 OF THE MEXICAN SECURITIES MARKET LAW (*LEY DEL MERCADO DE VALORES*) AND REGULATIONS THEREUNDER. WE WILL NOTIFY AND FILE CERTAIN DOCUMENTATION WITH THE CNBV OF THE TERMS AND CONDITIONS OF THE OFFERING OF THE NOTES OUTSIDE OF MEXICO. SUCH NOTICE WILL BE SUBMITTED FOR INFORMATIONAL PURPOSES ONLY TO THE CNBV TO COMPLY WITH ARTICLE 7, SECOND PARAGRAPH, OF THE MEXICAN SECURITIES MARKET LAW AND REGULATIONS THEREUNDER. THE DELIVERY TO, AND RECEIPT BY THE CNBV IS NOT A REQUIREMENT FOR THE VALIDITY OF THE NOTES, OF SUCH NOTICE DOES NOT CONSTITUTE OR IMPLY ANY CERTIFICATION AS TO THE INVESTMENT QUALITY OF THE NOTES, OUR SOLVENCY, LIQUIDITY OR CREDIT QUALITY OR THE ACCURACY OR COMPLETENESS OF THE INFORMATION SET FORTH IN THIS SUPPLEMENT OR THE OFFERING MEMORANDUM. THIS SUPPLEMENT IS SOLELY OUR RESPONSIBILITY AND HAS NOT BEEN REVIEWED OR AUTHORIZED BY THE CNBV, AND MAY NOT BE PUBLICLY DISTRIBUTED IN MEXICO.

PURSUANT TO CIRCULAR 3/2012 ISSUED BY *BANCO DE MÉXICO* AND PUBLISHED IN THE FEDERAL OFFICIAL GAZETTE (*DIARIO OFICIAL DE LA FEDERACIÓN*) ON MARCH 2, 2012, AND AS AMENDED FROM TIME TO TIME, INCLUDING THE AMENDMENT PUBLISHED ON APRIL 13, 2023,

IN THE FEDERAL OFFICIAL GAZETTE THROUGH CIRCULAR 16/2018, NO RELATED PARTY OF THE ISSUER, AS DEFINED IN ARTICLE 73 OF THE MEXICAN BANKING LAW, MAY ACQUIRE, DIRECTLY OR INDIRECTLY, ANY NOTES TO BE ISSUED PURSUANT TO THIS SUPPLEMENT.

WE HAVE THE OPTION, BUT NOT THE OBLIGATION, TO REDEEM THE SUBORDINATED PREFERRED TIER 2 CAPITAL NOTES, SUBJECT TO CERTAIN CONDITIONS SET OUT IN THE PRICING SUPPLEMENT, ON THE OPTIONAL CALL DATE (AS DEFINED IN THE PRICING SUPPLEMENT), OR AT ANY TIME UPON THE OCCURRENCE OF A WITHHOLDING TAX EVENT (AS DEFINED IN THE PRICING SUPPLEMENT) OR UPON THE OCCURRENCE OF A SPECIAL EVENT (AS DEFINED IN THE PRICING SUPPLEMENT) AFFECTING THE NOTES. SEE “OPTIONAL REDEMPTION,” “WITHHOLDING TAX REDEMPTION” AND “SPECIAL REDEMPTION EVENT” IN THE PRICING SUPPLEMENT. PRINCIPAL AND INTEREST ON THE SUBORDINATED PREFERRED TIER 2 CAPITAL NOTES WILL BE DEFERRED AND WILL NOT BE PAID UNDER CERTAIN CIRCUMSTANCES. IF A TRIGGER EVENT (AS DEFINED IN THE PRICING SUPPLEMENT) OCCURS, THE PRINCIPAL AMOUNT OF THE SUBORDINATED PREFERRED TIER 2 CAPITAL NOTES WILL BE WRITTEN DOWN AS DESCRIBED IN THE PRICING SUPPLEMENT. IF A WRITE-DOWN OCCURS, THE WRITTEN-DOWN PRINCIPAL, AND ANY INTEREST ACCRUED WITH RESPECT THERETO DURING ANY SUSPENSION PERIOD, WILL BE CANCELLED. THE DEFERRAL OF INTEREST IN ACCORDANCE WITH THE PROCEDURES SET FORTH IN THE SUBORDINATED NOTES INDENTURE AND THE PRICING SUPPLEMENT WILL NOT CONSTITUTE AN EVENT OF DEFAULT UNDER THE SUBORDINATED NOTES INDENTURE. SEE “THE OFFERING—WRITE-DOWN” IN THE PRICING SUPPLEMENT. IF A CAPITAL RATIO EVENT OR A MEXICAN REGULATORY EVENT (IN EACH CASE, AS DEFINED IN THE PRICING SUPPLEMENT) OCCURS, WE WILL SUSPEND PAYMENT OF INTEREST ON THE SUBORDINATED PREFERRED TIER 2 CAPITAL NOTES OR PAYMENT OF PRINCIPAL AT MATURITY UNTIL THE END OF THE RELATED SUSPENSION PERIOD (AS DEFINED IN THE PRICING SUPPLEMENT), SUBJECT TO THE OCCURRENCE OF A WRITE-DOWN IN THE EVENT THAT DURING SUCH SUSPENSION PERIOD A TRIGGER EVENT SHALL HAVE OCCURRED. SEE “THE OFFERING—DEFERRAL OF INTEREST AND DEFERRAL OF PRINCIPAL PAYMENTS DURING A SUSPENSION PERIOD.”

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FORWARD-LOOKING STATEMENTS

Certain statements contained in this Supplement relating to our plans, forecasts and expectations regarding future events, strategies and projections are estimates. Examples of such forward-looking statements include, but are not limited to: (i) statements regarding our results of operations and financial position, (ii) statements of plans, objectives or goals, including those related to our operations, and (iii) statements of assumptions underlying such statements. Words such as “may,” “might,” “will,” “would,” “shall,” “should,” “consider,” “can,” “could,” “believe,” “anticipate,” “continue,” “expect,” “estimate,” “plan,” “intend,” “assume,” “foresee,” “seeks,” “predict,” “project,” “potential,” or the negative of these terms, and other similar terms are used in this Supplement to identify such forward-looking statements. Forward-looking statements included in this Supplement are based on our current expectations and projections related to future events and trends that affect or would affect our business.

Forward-looking statements include risks, uncertainties and assumptions, since these refer to future events and, therefore, do not represent any guarantee of future results. Therefore, our financial condition, results of operations, strategies, competitive position and market environment may significantly differ from our estimates as a result of a number of factors, including, but not limited to:

- changes in economic, political, social and other conditions in Mexico and elsewhere;
- material adverse effects as a result of geopolitical and/or military conflicts, such as the current conflict in Ukraine, and other developments and other global uncertainties;
- changes in exchange rates, market interest rates or inflation rates;
- financing plans and limitations on our access to sources of financing on competitive terms;
- changes in general economic, business, social, political, public health or other conditions in Mexico, the United States or elsewhere;
- changes in public sector lending in Mexico;
- the ability or willingness of our customers to meet their payment obligations;
- the monetary, foreign exchange, liquidity and interest rate policies of *Banco de México*;
- disruptions in the financial services industry globally or in Mexico;
- possible disruptions to commercial activities due to natural and man-made disasters, including health epidemics, including pandemics such as the COVID-19 pandemic, weather events, terrorist activities and armed conflicts;
- material changes to, or withdrawals from, or renegotiations of free trade agreements to which Mexico is a party, including the United States—Mexico—Canada Agreement, to which Mexico is a party and that has replaced the North American Free Trade Agreement;
- competition in the banking and financial services industry in Mexico;
- profitability of our businesses;
- credit and other risks of lending, such as increases in default of borrowers, and changes required to loan loss reserves and amounts;
- changes and risks faced by other financial institutions;
- limitations on our access to sources of financing on competitive terms;
- failure to meet capital or other requirements;
- additional capital requirements relating to our classification as a systemically important local bank and to countercyclical risks;
- limitations on our ability to freely determine interest rates;

- changes in reserve or capital requirements, changes in the laws or regulations applicable thereto, or the interpretation of how such reserve or capital requirements are to be calculated;
- our inability to hedge against market risks, including but not limited, to interest rate and exchange rate movements;
- changes in requirements to make contributions to or for the receipt of support from programs organized by the Mexican government;
- inability to timely and duly enforce our claims on collateral provided by borrowers;
- changes in our or Mexico's domestic and international credit ratings;
- changes in regulations relating to the products we offer or otherwise;
- changes in capital markets in general that may affect policies or attitudes towards investing in Mexico or securities issued by companies in Mexico;
- any failure or weakness in our operating controls or procedures or our risk management policies;
- changes in consumer spending and saving habits;
- a deterioration of labor relations with our employees and changes in the laws or regulations applicable thereto that would result in additional costs relating to employee benefits;
- our ability to implement new technologies and to safeguard against cyber-attacks and other breaches of our information technology systems;
- interruptions or failures in our technology systems;
- actions taken by the Mexican Antitrust Commission (*Comisión Federal de Competencia Económica*) or the Ministry of Finance and Public Credit (*Secretaría de Hacienda y Crédito Público*) with respect to our business and the Mexican banking industry generally;
- any adverse administrative or legal proceedings against us;
- organized criminal activities and other geopolitical events;
- any failure to detect money laundering or other illegal or improper activities;
- cyber-attacks and their impact on our reputation, operations and results;
- the impact of acquisitions and divestitures;
- restrictions on foreign currency convertibility and remittance outside of Mexico;
- actions and/or sanctions resulting from our failure to maintain required Capital Ratios;
- the impact of transactions with our parent GFBM and its subsidiaries or affiliates;
- the effect of changes in accounting principles, new legislation, intervention by regulatory authorities, government directives or monetary or fiscal policy in Mexico; and
- the other factors discussed under "Risk Factors" in the Offering Memorandum.

Therefore, our actual performance may be adversely affected and may significantly differ from the expectations set forth in these forward-looking statements, which do not represent a guarantee of our future performance. Accordingly, you should not place undue reliance on the estimates and forward-looking statements included in this Supplement to make an investment decision.

Additional factors affecting our business may arise periodically and we cannot predict such factors, nor can we assess the impact of all these factors on our business or the extent to which such factors or combination of factors could cause our results to materially differ from those contained in any forward-looking statement. Although we consider the plans, intentions, expectations and estimates reflected in, or suggested by, forward-looking statements included in this Supplement to be reasonable, we cannot provide any assurance that our plans, intentions, expectations and estimates will be achieved. Additionally, historical trends in our statements should not be interpreted as a guarantee that these trends will continue in the future.

Forward-looking statements included herein are made only as of the date of this Supplement. Except as required by law, we do not undertake any obligation to update any forward-looking statements to reflect events or circumstances after the date hereof or to reflect the occurrence of anticipated or unanticipated events or circumstances.

CAPITALIZATION

The following table sets forth our capitalization as of March 31, 2023. The following table should be read in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and the First Quarter Financial Statements and the notes thereto, each included elsewhere in this Supplement.

	As of March 31, 2023⁽¹⁾	
	Actual	
	(millions of U.S.\$)⁽²⁾	(millions of Ps.)
Indebtedness		
Debt securities issued	5,200	93,708
Subordinated bonds issued – preferred indebtedness	1,958	35,289
Total indebtedness	7,158	128,997
Stockholders’ equity		
Subscribed capital ⁽³⁾	2,220	40,003
Retained earnings	15,232	274,480
Total subscribed capital and retained earnings	17,452	314,483
Total capitalization ⁽⁴⁾	24,610	443,480

(1) Except as disclosed in this Supplement, there has been no material change in capitalization since March 31, 2023.

(2) Translated at the rate of Ps.18.0201 to U.S.\$1.00, the closing exchange rate published by *Banco de México* on www.banxico.org.mx/tipcamb/main.do?page=tip&idioma=sp on March 31, 2023.

(3) As of March 31, 2023, our authorized capital stock consisted of 9,107,142,859 Series “F” shares and 8,749,999,999 Series “B” shares. Of these shares, 7,737,078,937 Series “F” shares and 7,433,664,076 Series “B” shares were issued and outstanding.

(4) Total capitalization is equal to total indebtedness (debt securities issued and subordinated bonds issued) plus total subscribed capital and retained earnings.

SELECTED CONSOLIDATED FINANCIAL INFORMATION AND OTHER DATA

The selected unaudited interim condensed consolidated financial information presented below should be read in conjunction with “Presentation of Certain Financial and Other Information,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” the First Quarter Financial Statements, our Financial Statements and other financial information included elsewhere in this Supplement and the Offering Memorandum.

Unaudited Financial Information

The selected unaudited interim condensed consolidated financial information for the three months ended March 31, 2023 and 2022 presented below has been derived from and should be read in conjunction with the First Quarter Financial Statements included elsewhere in this Supplement. Such interim financial information, unless otherwise specified, is presented in nominal pesos.

	For the three months ended March 31,		
	2023 ⁽¹⁾	2023	2022
	(millions of U.S.\$)	(millions of Ps.)	
Statement of comprehensive income:			
Interest income.....	3,903	70,338	50,179
Interest expense.....	(1,165)	(21,002)	(11,938)
Net interest income.....	2,738	49,336	38,241
Allowance for loan losses	(510)	(9,197)	(8,535)
Net interest income adjusted for allowance for loan losses	2,228	40,139	29,706
Commissions and fee income	925	16,675	13,887
Commissions and fee expenses.....	(390)	(7,019)	(5,779)
Financial intermediation income.....	140	2,519	2,324
Other operating income (expense).....	(98)	(1,765)	(1,716)
Administrative and promotional expenses.....	(1,053)	(18,979)	(16,188)
Net operating income	1,752	31,570	22,234
Equity in the income of unconsolidated subsidiaries and associated companies	1	24	35
Income before income tax	1,753	31,594	22,269
Current income tax.....	(483)	(8,710)	(6,025)
Income from continuing operations	1,270	22,884	16,244
Discontinued operations.....	—	—	—
Net income	1,270	22,884	16,244
Other comprehensive income			
Valuation of financial instruments to collect or sell	58	1,046	(2,291)
Valuation of derivative financial instruments for cash flow hedges	3	46	(446)
Remeasurement of employee defined benefits	3	50	200
Comprehensive income	64	1,142	(2,537)
	1,334	24,026	13,707
Net income attributable to:			
Controlling and non-controlling interest	1,270	22,890	16,250
Non-controlling interest	—	(6)	(6)
	1,270	22,884	16,244
Comprehensive income attributable to:			
Controlling and non-controlling interest	1,334	24,032	13,713
Non-controlling interest	—	(6)	(6)
	1,334	24,026	13,707

	As of March 31,		As of December 31,
	2023 ⁽¹⁾	2023	2022
	(millions of U.S.\$)	(millions of Ps., except for percentages)	
Balance Sheet Data:			
Cash and cash equivalents	13,854	249,655	275,795
Margin Accounts.....	451	8,131	9,718
Investment in securities	28,303	510,031	533,782
Loan portfolio ⁽²⁾	85,737	1,544,993	1,512,906
Allowance for loan losses	(2,723)	(49,075)	(49,588)
Deferred income tax and ESPS, net	2,035	36,664	38,096
All other assets ⁽³⁾	28,182	507,850	432,891
Total assets	155,839	2,808,249	2,753,601
Deposits (excluding debt securities and subordinated bonds issued)	87,503	1,576,804	1,621,392
Debt securities issued.....	5,200	93,708	88,819
Subordinated bonds issued.....	1,958	35,289	38,623
Banks and other borrowings	2,127	38,323	39,162
Total funding ⁽⁴⁾	96,788	1,744,124	1,787,996
All other liabilities ⁽⁵⁾	41,970	756,310	665,572
Total liabilities.....	138,758	2,500,434	2,453,568
Total stockholders' equity	17,082	307,815	300,033
Profitability and Efficiency:			
Return on average total assets ⁽⁶⁾		3.29%	2.94%
Return on average stockholders' equity ⁽⁷⁾		30.12%	26.27%
Net interest margin ⁽⁸⁾		7.10%	6.41%
Efficiency ratio ⁽⁹⁾		31.77%	32.79%
Capitalization:			
Stockholders' equity as a percentage of total assets ...		10.96%	10.90%
Tier 1 Capital as a percentage of risk-weighted assets ⁽¹⁰⁾		16.36%	16.83%
Total capital as a percentage of risk-weighted assets ⁽¹⁰⁾		18.38%	19.19%
Credit Quality Data:			
Stage 1 and Stage 2 loans	84,303	1,519,144	1,487,229
Stage 3 loans.....	1,279	23,042	23,848
Total loans	85,581	1,542,186	1,511,077
Loans graded "C," "D" and "E" ⁽¹⁰⁾	6,492	116,994	117,162
Allowance for loan losses.....	(2,723)	(49,075)	(49,588)
Loan Recovery and Write-offs:			
Stage 3 loans – average balance	1,301	23,445 ⁽¹⁰⁾	22,699
Non-performing loans written-off.....	(512)	(9,224)	(26,440)
Charge-offs (net of recoveries) as a percentage of average total loans		1.17% ⁽¹²⁾	2.18%

(1) Translated at the rate of Ps.18.0201 to U.S.\$1.00, the closing exchange rate published by *Banco de México* on www.banxico.org.mx/tipcomb/main.do?page=tip&idioma=sp on March 31, 2023.

(2) Loan portfolio includes the stage 1, stage 2 and stage 3 loans in our loan portfolio, as adjusted to reflect their fair value, deferred accounts and acquired collection rights, net.

(3) All other assets include: debtors on repurchase/resale agreements, derivatives, valuation adjustments related to financial assets hedged, benefits receivable on securitizations transactions, other accounts receivable, net, foreclosed assets, net, property, furniture and equipment, net, permanent investments and other assets - deferred charges, prepayments and intangibles.

(4) Total funding includes: deposit funding (excluding debt securities issued), debt securities issued, subordinated bonds issued and banks and other borrowings.

- (5) All other liabilities include: creditors on repurchase/resale agreements, securities lending, sold/pledged collateral-securities lending, derivatives, valuation adjustments related to financial liabilities hedged, other accounts payable and deferred credits and advance payments.
- (6) Return on average assets is equal to net income for the year divided by average assets for the year. Average assets are determined based on the beginning and ending balances for the year.
- (7) Return on average stockholders' equity is equal to net income for the year divided by average equity for the year. Average equity is determined based on the beginning and ending balances for the year.
- (8) Represents net income divided by average total assets. Average total assets are determined on an annualized basis, based on the beginning and end of the period.
- (9) Efficiency ratio is equal to total administrative and promotional expenses as a percentage of the sum of net interest income and non-interest income (commissions and fees, *plus* trading income *plus* other operating income). For this purpose, net interest income and non-interest income are calculated before provision for loan losses.
- (10) Source: *Banco de México*.
- (11) See "Selected Statistical Information—Grading of Loan Portfolio" in the Offering Memorandum.
- (12) Average calculated between December 2022 and March 2023.

MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The financial information presented in this section should be read in conjunction with the First Quarter Financial Statements included elsewhere in this Supplement and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in the Offering Memorandum. The First Quarter Financial Statements have been prepared in accordance with Mexican Banking GAAP, which differs in significant respects from U.S. GAAP and IFRS. For a discussion of significant differences between Mexican Banking GAAP and U.S. GAAP and Mexican Banking GAAP and IFRS, see “Annex A—Significant Differences Between Mexican Banking GAAP and U.S. GAAP” and “Annex B—Significant Differences Between Mexican Banking GAAP and IFRS,” respectively, in the Offering Memorandum. No reconciliation of any of our Financial Statements to U.S. GAAP has been prepared for this Supplement or the Offering Memorandum. Any such reconciliation could result in material quantitative differences. See “Presentation of Certain Financial and Other Information” in the Offering Memorandum.

Results of Operations

The unaudited interim condensed consolidated financial information presented in this section for the three months ended March 31, 2023 and 2022 should be read in conjunction with the First Quarter Financial Statements and the notes thereto included elsewhere in this Supplement. Such interim financial information, unless otherwise specified, is presented in nominal pesos.

Net Interest Income

The following table sets forth the components of our net interest income:

	For the Three Months Ended March 31,	
	2023	2022
	(millions of Ps.)	
Interest Income:		
Interest and fees on loans	53,028	37,660
Interest on securities.....	10,295	9,858
Interest on cash and due from banks	2,947	904
Interest on repurchase agreements	1,515	524
Interest on margin accounts.....	61	18
Fees charged on initial loan.....	522	408
Interest on hedging financial instruments	1,380	207
Other	590	600
Total interest income	70,338	50,179
Interest Expense:		
Interest on demand deposits	10,737	5,561
Interest on derivative financial instruments for trading.....	311	248
Interest on bank and other borrowings	948	554
Interest on hedging financial instruments	245	122
Interest and premiums on repurchase/resale agreements and securities lending	7,199	3,635
Expenses on loan originations.....	361	401
Interest on subordinated obligations.....	726	1,174
Other	475	243
Total interest expense	21,002	11,938
Net interest income	49,336	38,241

Net interest income for the three months ended March 31, 2023 totaled Ps.49,336 million, an increase of 29.0% compared to Ps.38,241 million for the three months ended March 31, 2022. This increase was primarily due to higher volumes of commercial activity.

Interest Income

Interest income was Ps.70,338 million for the three months ended March 31, 2023, compared to Ps.50,179 million for the three months ended March 31, 2022, an increase of Ps.20,159 million, or 40.2%. This increase was primarily the result of higher volumes of credit in our commercial and consumer lending portfolios.

Interest and fees on loans was Ps.53,028 million for the three months ended March 31, 2023, compared to Ps.37,660 million for the three months ended March 31, 2022, an increase of Ps.15,368 million, or 40.8%. This increase was primarily attributable to an increase in the balance of our loan portfolio during the three months ended March 31, 2023, especially in our total consumer and residential mortgage loan portfolios, which increased by 18.7% and 10.6%, respectively, as compared to the comparable period of 2022.

Interest on investment securities was Ps.10,295 million for the three months ended March 31, 2023, compared to Ps.9,858 million for the three months ended March 31, 2022, an increase of Ps.437 million, or 4.4%, resulting from increases in the reference interest rates.

Interest on cash and due from banks was Ps.2,947 million for the three months ended March 31, 2023, compared to Ps.904 million for the three months ended March 31, 2022, an increase of Ps.2,043 million, or 225.9%, resulting from increases in the reference interest rates.

Interest on repurchase agreements was Ps.1,515 million for the three months ended March 31, 2023, compared to Ps.524 million for the three months ended March 31, 2022, an increase of Ps.991 million, or 189.1%, due to higher interest rates in the three months ended March 31, 2023, as compared to the comparable period of 2022.

Interest on hedging financial instruments was Ps.1,380 million for the three months ended March 31, 2023, compared to Ps.207 million for the three months ended March 31, 2022, an increase of Ps.1,173 million, or 566.6%, resulting from increases in the reference interest rates.

Interest Expense

Interest expense was Ps.21,002 million for the three months ended March 31, 2023, compared to Ps.11,938 million for the three months ended March 31, 2022, an increase of Ps.9,064 million, or 75.9%, mainly attributable to higher deposit volumes, as a result of a greater attractiveness of our deposit accounts to our customers due to higher interest rates.

Interest on demand deposits was Ps.10,737 million for the three months ended March 31, 2023, compared to Ps.5,561 million for the three months ended March 31, 2022, an increase of Ps.5,176 million, or 93.1%. This increase was primarily attributable to the increase in interest rates and was partially driven by an increase in the volume of demand deposits.

Interest and premiums on repurchase/resale agreements and securities lending was Ps.7,199 million for the three months ended March 31, 2023, compared to Ps.3,635 million for the three months ended March 31, 2022, an increase of Ps.3,564 million, or 98.0%. This increase was primarily attributable to increases in the reference interest rates.

Allowance for Loan Losses

Allowance for loan losses charged against earnings was Ps.9,197 million for the three months ended March 31, 2023, compared to Ps.8,535 million for the three months ended March 31, 2022, an increase of Ps.662 million, or 7.8%. This increase resulted primarily from a 14.2% increase in the stage 1 and 2 loans in our loan portfolio.

Non-Interest Income

The following table sets forth the components of our non-interest income:

	For the Three Months Ended March 31,	
	2023	2022
	(millions of Ps.)	
Commissions and Fees:		
Bank fees	2,092	1,906

	For the Three Months Ended March 31,	
	2023	2022
	(millions of Ps.)	
Cash management and fund transfers	(323)	(290)
Credit and debit cards	6,455	4,837
Investment funds	1,150	1,049
Effective credit card reward points	(1,026)	(829)
Promotion fund collateral	(365)	(294)
Insurance ⁽¹⁾	766	674
Credit placement	(247)	(229)
Appraisals	(84)	(62)
Purchase sale of securities	(24)	(53)
Other	1,262	1,399
Total commissions and fees	9,656	8,108
Trading Income:		
Valuation Result:		
Derivatives	(97)	3,990
Foreign currency	2,057	(1,087)
Securities investments	959	(708)
Total valuation result	2,919	2,195
Purchase-sale result:		
Derivatives	(1,579)	(1,804)
Foreign currency	1,630	2,175
Securities investments	(451)	(242)
Total purchase-sale result	(400)	129
Result from intermediation	2,519	2,324
Total non-interest income	12,175	10,432

(1) These are services provided through GFBM affiliates.

Non-interest income, including total commissions and fees, trading income and other operating income, was Ps.12,175 million for the three months ended March 31, 2023, compared to Ps.10,432 million for the three months ended March 31, 2022, an increase of Ps.1,743 million, or 16.7%. This increase was primarily due to an increase in fees from higher transaction volumes in credit cards and mutual funds.

Total commissions and fees were Ps.9,656 million for the three months ended March 31, 2023, compared to Ps.8,108 million for the three months ended March 31, 2022, an increase of Ps.1,548 million, or 19.1%. This increase was due to higher transaction volumes in credit and debit cards and mutual funds.

Bank fees were Ps.2,092 million for the three months ended March 31, 2023, compared to Ps.1,906 million for the three months ended March 31, 2022, an increase of Ps.186 million, or 9.8%. This increase was due to higher transaction volumes (rather than higher commission rates). Bank fees represented 21.7% of our total commissions and fees for the three months ended March 31, 2023, as compared to 23.5% for the comparable period of 2022.

Credit and debit cards fees were Ps.6,455 million for the three months ended March 31, 2023, compared to Ps.4,837 million for the three months ended March 31, 2022, an increase of Ps.1,618 million, or 33.5%. This increase was due to increased commercial activity and the granting of 44% more new credit cards during the three months ended March 31, 2023, as compared to the comparable period of 2022. Credit and debit cards fees represented 66.8% of our total commissions and fees for the three months ended March 31, 2023, as compared to 59.7% for the comparable period of 2022.

Administrative and Promotional Expenses

The following table sets forth the components of our administrative and promotional expenses:

	For the Three Months Ended March 31,	
	2023	2022
	(millions of Ps.)	
Salaries and employee benefits.....	(8,084)	(6,449)
Administrative expenses.....	(5,839)	(5,342)
Rent, depreciation and amortization	(3,899)	(3,412)
Taxes other than income taxes.....	(1,157)	(985)
Total administrative and promotional expenses	(18,979)	(16,188)

Administrative and promotional expenses for the three months ended March 31, 2023 were Ps.18,979 million, a 17.2%, or Ps.2,791 million, increase compared to Ps.16,188 million for the three months ended March 31, 2022, primarily as the result of higher salaries and employee benefits due the increased activity, new employees hired and inflation during the period.

Salaries and employee benefits expenses were Ps.8,084 million for the three months ended March 31, 2023, compared to Ps.6,449 million for the three months ended March 31, 2022, an increase of Ps.1,635 million, or 25.4%. This increase was mainly attributable to a 7.6% increase in personnel during the three months ended March 31, 2023, as compared to comparable period of 2022.

Administrative expenses were Ps.5,839 million for the three months ended March 31, 2023, compared to Ps.5,342 million for the three months ended March 31, 2022, an increase of Ps.497 million, or 9.3%. This increase was primarily due to higher inflation rates and higher commercial activity expenses.

Rent, depreciation and amortization expenses were Ps.3,899 million for the three months ended March 31, 2023, compared to Ps.3,412 million for the three months ended March 31, 2022, an increase of Ps.487 million, or 14.3%, primarily due to an increase in overall rental rates due to inflation.

Tax expense (other than income taxes) was Ps.1,157 million for the three months ended March 31, 2023 compared to Ps.985 million for the three months ended March 31, 2022, an increase of Ps.172 million, or 17.5%, primarily due to the current inflation levels.

Net Income Tax

Income tax, net, for the three months ended March 31, 2023 was Ps.8,710 million, a 44.6%, or Ps.2,685 million, increase compared to Ps.6,025 million for the three months ended March 31, 2022. This increase was due to a higher tax base, as well as a higher real tax rate, given a drop in inflation levels during the three months ended March 31, 2023, compared to the three months ended March 31, 2022.

Net Income

As a result of the factors described above, net income was Ps.22,884 million for the three months ended March 31, 2023, compared to Ps.16,244 million for the three months ended March 31, 2022, an increase of Ps.6,640 million, or 40.9%.

Financial Position

The following discussion compares our consolidated financial position as of March 31, 2023, and the year ended December 31, 2022.

Assets

As of March 31, 2023, we had total assets of Ps.2,808,249 million, compared to Ps.2,753,601 million as of December 31, 2022, representing an increase of 2.0%. The increase in our total assets was attributable to the increase in total loans.

Total Performing Loans

As of March 31, 2023, we had a total current loan portfolio of Ps.1,519,144 million, compared to Ps.1,487,229 million as of December 31, 2022, an increase of Ps.31,915 million, or 2.1%. This increase was attributable mainly to increases in our consumer and credit card portfolio and enterprises portfolio, which increased 3.5% and 1.6%, respectively. As of March 31, 2023, with respect to Stage 1 and Stage 2 loans, commercial loans, consumer loans and residential mortgage loans represented 56%, 24% and 20% of total current loans, respectively.

Total Past Due Loans

As of March 31, 2023, we had total past due loans of Ps.23,042 million, compared to Ps.23,848 million as of December 31, 2022, a decrease of Ps.806 million, or 3.4%. This decrease was mainly attributable to better collections on the mortgage portfolio. As of March 31, 2023, past due consumer loans, past due mortgage loans and past due commercial loans represented 40%, 26% and 33%, respectively, of the total balance of our past due loan portfolio.

Liabilities

As of March 31, 2023, we had total liabilities of Ps.2,500,434 million, compared to Ps.2,453,568 million as of December 31, 2022, an increase of Ps.46,866 million, or 1.9%. This increase was mainly attributable to movements in the derivatives market.

Deposits Funding

As of March 31, 2023, we had total deposits (including debt securities issued) of Ps.1,670,512 million, compared to Ps.1,710,211 million as of December 31, 2022, a decrease of Ps.39,699 million, or 2.3%. This decrease was primarily attributable to a 3.2% decrease in demand deposits.

Bank and Other Borrowings

As of March 31, 2023, we had bank and other borrowings of Ps.38,323 million, compared to Ps.39,162 million as of December 31, 2022, a decrease of Ps.839 million, or 2.1%. This decrease was the result of lower demand for interbank loans and short-term loans from other entities.

Subordinated Bonds Issued

As of March 31, 2023, we had Ps.35,289 million of subordinated bonds issued and outstanding, which represented 1.41% of our total liabilities as of that date, compared to Ps.38,623 million as of December 31, 2022, a decrease of Ps.3,334 million, or 8.6%. This decrease was due to variations in the peso/U.S. dollar exchange rate between the two dates.

Stockholders' Equity

As of March 31, 2023, our stockholders' equity was Ps.307,815 million, an increase of Ps.7,782 million, or 2.6%, from to Ps.300,033 million as of December 31, 2022. This increase was primarily due to a 2.5% increase in our cumulative results.

As reported to the CNBV, our liquidity coverage ratio (*Coeficiente de Cobertura de Liquidez*) for the three months ended March 31, 2023 was 185.60% compared to 234.30% for the three months ended March 31, 2022. This decrease was primarily due to increases in our loan balance, as well the repayment of debt issuances upon maturity and dividend payments.

Dividends

During the first quarter of 2023, we declared and paid a cash dividend of Ps.16,250 million, or Ps.1.07114068085361 per outstanding share, which is part of the dividends that were distributed pursuant to the approval of the ordinary general meeting of shareholders dated February 28, 2023. For further information regarding our dividends, see "Dividends" in the Offering Memorandum.

Foreign Currency Position

As of March 31, 2023, our foreign currency-denominated assets, including derivative transactions, totaled U.S.\$19.2 billion (Ps.346,174 million), representing 12.3% of our total assets. At that date, our foreign currency-denominated liabilities, including derivative transactions, totaled U.S.\$18.3 billion (Ps.330,489 million), representing 11.8% of our total liabilities and stockholders' equity. As part of our asset liability management strategy, we closely monitor our exposure to foreign currencies to minimize the effect of exchange rate movements on our income.

Risk-Based Capital

As of March 31, 2023, our Capital Ratios were (i) 18.38% in the case of Total Net Capital (*capital neto*), (ii) 16.36% in the case of Tier 1 Capital (*capital básico*) and (iii) 16.36% in the case of Fundamental Capital (*capital básico fundamental*). For additional information on our Capital Ratios, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Risk-Based Capital" in the Offering Memorandum. The table below presents our risk-weighted assets and Capital Ratios as of March 31, 2023 and 2022, calculated, as required by regulations, on an unconsolidated basis.

	As of March 31,	
	2023	2022
	(millions of Ps., except for percentages)	
Tier 1	292,158	279,839
Tier 2	36,023	40,850
Total Capital	328,181	320,689
Risk-weighted assets:		
Credit risk	1,149,849	1,033,310
Market risk	405,449	461,000
Operational risk	230,119	140,044
Total risk-weighted assets	1,785,417	1,634,354
Capital ratios (credit, market and operational risk):		
Tier 1 Capital to risk-weighted assets	16.36%	17.12%
Tier 2 Capital to risk-weighted assets	2.02%	2.50%
Total Capital to risk-weighted assets	18.38%	19.62%

Source: *Banco de México*

Off-Balance Sheet Arrangements

Off-balance sheet loan commitments to customers totaled Ps.790,919 million as of March 31, 2023, compared to Ps.792,231 million as of December 31, 2022.

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**BBVA México, S.A.,
Institución de Banca Múltiple,
Grupo financiero BBVA México y subsidiarias**

Interim Condensed Consolidated Financial Statement (unaudited)

For the three-month period ended as of March 31, 2023 and
2022 (Unaudited), and December 31, 2022

Independent Auditors' Report on Review of Interim Condensed Consolidated Financial Information

To the Board of Directors and Shareholders of
BBVA México S.A., Institución de Banca Múltiple and Subsidiaries
Grupo Financiero BBVA México

Introduction

We have reviewed the accompanying Interim Condensed Consolidated Statement of Financial Position of BBVA México S.A., Institución de Banca Múltiple and Subsidiaries, Grupo Financiero BBVA México as of March 31, 2023 and the related Condensed Consolidated Statements of Comprehensive Income, Changes in Stockholders' Equity and Cash Flows for the three-month period then ended, and a summary of significant accounting policies and other explanatory notes.

Management is responsible for the preparation and presentation of this interim financial information in accordance with the Accounting Criteria, applicable to Credit Institutions, issued by National Banking and Securities Commission of Mexico (hereinafter the "Commission" or "CNBV") included in the current *General Provisions Applicable to Credit Institutions in Mexico*. Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity."

A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information does not present fairly, in all material respects the financial position of the entity as at March 31, 2023, and of its financial performance and its cash flows for the three-month period then ended in accordance with the Accounting Criteria established by the Commission.

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

C.P.C. Gabriel Alejandro Baroccio Pompa

Mexico City, Mexico.

May 12, 2023

BBVA México, S. A.,
Institución de Banca Múltiple, Grupo Financiero BBVA México and Subsidiaries
 Av. Paseo de la Reforma 510, Col. Juárez, Ciudad de México, México
 Interim Condensed Consolidated Statement of Financial Position
 As of March 31, 2023 and December 31, 2022
 (MXN millions)

Assets	March 2023 (Unaudited)	December 2022	Liabilities and stockholders' equity	March 2023 (Unaudited)	December 2022
Cash and cash equivalents (Note 4)	\$ 249,655	275,795	Deposits (Note 9)		
Margin accounts (derivative financial instruments)	8,131	9,718	Demand deposits	\$ 1,323,166	1,367,045
Investments in financial instruments: (Note 5)			Time deposits:		
Negotiable financial instruments	200,989	244,852	General public	237,306	243,521
Financial instruments to collect or sell	189,690	195,031	Money market	9,837	4,110
Financial instruments to collect principal and interest (Securities) (net)	119,352	93,899	Securities issued	93,708	88,819
	<u>510,031</u>	<u>533,782</u>	Global deposit account without transactions	6,495	6,716
Debtors on repurchases/resales	22,267	26,324		<u>1,670,512</u>	<u>1,710,211</u>
Derivative financial instruments: (Note 6)			Interbank and other borrowings:		
Trading	209,521	209,518	Short term	5,946	6,528
Hedging	7,821	6,647	Long term	32,377	32,634
	<u>217,342</u>	<u>216,165</u>		<u>38,323</u>	<u>39,162</u>
Valuation adjustments related to financial assets hedged	(768)	(639)	Creditors on repurchase/resale	228,610	187,057
Loan portfolio with stage 1 credit risk:			Securities lending	2	2
Commercial:			Collateral sold or pledged:		
Business or commercial activity	604,366	593,756	Repurchase/resale (creditor balance)	21,573	15,304
Financial entities	33,360	29,571	Securities lending	32,055	39,430
Governmental entities	185,679	185,736		<u>53,628</u>	<u>54,734</u>
	<u>823,405</u>	<u>809,063</u>	Derivative financial instruments (Note 6)		
Consumer	357,775	346,721	Trading	231,528	232,352
Mortgage:			Hedging	7,175	8,820
Medium class and residential	295,071	289,472		<u>238,703</u>	<u>241,172</u>
Low income	4,147	4,098	Valuation adjustments to financial liabilities hedged	(3,472)	(4,771)
	<u>299,218</u>	<u>293,570</u>	Lease liabilities	5,560	5,139
Total loan portfolio with stage 1 credit risk	<u>1,480,398</u>	<u>1,449,354</u>	Other accounts payable:		
Loan portfolio with stage 2 credit risk:			Creditors on settlement of transactions	87,002	13,847
Commercial:			Creditors on margin accounts	190	342
Business or commercial activity	17,759	18,831	Creditors on cash received as collateral	18,680	13,438
Consumer	9,848	8,616	Tax payable	2,708	2,797
Mortgage:			Sundry creditors & other accounts payable	107,892	125,351
Medium class and residential	10,667	9,963		<u>216,472</u>	<u>155,775</u>
Low income	472	465	Financial instruments qualifying as liabilities (Note 10):		
	<u>11,139</u>	<u>10,428</u>	Subordinated obligations outstanding	35,289	38,623
Total loan portfolio with stage 2 credit risk	<u>38,746</u>	<u>37,875</u>	Income tax liability	7,519	14,112
Loan portfolio with stage 3 credit risk:			Liabilities for employee benefits	3,960	6,993
Commercial:			Deferred credits and prepayments	5,328	5,359
Business or commercial activity	7,614	7,653			
Financial entities	9	9	Total liabilities	<u>2,500,434</u>	<u>2,453,568</u>
	<u>7,623</u>	<u>7,662</u>	Stockholders' equity (Note 12)		
Consumer	9,326	9,363	Paid-in capital:		
Mortgage:			Capital stock	24,143	24,143
Medium class and residential	5,898	6,592	Additional paid-in capital	15,860	15,860
Low income	195	231	Additional paid-in capital	40,003	40,003
	<u>6,093</u>	<u>6,823</u>	Earned capital:		
Total loan portfolio with stage 3 credit risk	<u>23,042</u>	<u>23,848</u>	Capital reserves	6,901	6,901
Loan portfolio measured at fair value	4,945	5,100	Cumulative results	274,480	267,846
Loan portfolio	<u>1,547,131</u>	<u>1,516,177</u>	Other comprehensive income:		
(+/-)Deferred items	(2,139)	(3,271)	Valuation of financial instruments to collect or sell	(7,657)	(8,703)
(-)Less:			Valuation of derivative financial instruments for cash flow hedges	(1,307)	(1,353)
Allowance for loan losses (Note 8)	(49,075)	(49,588)	Remeasurements of defined employee benefits	(4,690)	(4,740)
Loan portfolio (net)	<u>1,495,917</u>	<u>1,463,318</u>		<u>(13,654)</u>	<u>(14,796)</u>
Collection rights purchased (net)	1	1		<u>267,727</u>	<u>259,951</u>
Total loan portfolio (net) (Note 7)	<u>1,495,918</u>	<u>1,463,319</u>	Total controlling interest	307,730	299,954
Other accounts receivable (net)	217,456	139,189	Total non-controlling interest	85	79
Foreclosed assets (net)	1,531	1,611	Total stockholders' equity	<u>307,815</u>	<u>300,033</u>
Prepayments and other assets	2,980	3,309			
Property, plant and equipment (net)	36,023	36,289	Total liabilities and stockholders' equity	<u>\$ 2,808,249</u>	<u>2,753,601</u>
Assets from rights of use of property, plant and equipment (net)	5,392	5,009			
Permanent investments	1,212	1,183			
Assets for deferred income tax (net)	36,664	38,096			
Intangible assets (net)	4,415	4,451			
Total assets	<u>\$ 2,808,249</u>	<u>2,753,601</u>			

(Continued)

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

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

Interim Condensed Consolidated statement of financial position
As of March 31, 2023 and December 31, 2022

(MXN millions)

Memorandum accounts	March 2023 (Unaudited)	December 2022
Contingent assets and liabilities	\$ 198	2,524
Credit commitments	790,919	792,231
Assets in trust or under mandate		
In trust	\$ 825,597	672,475
Under mandate	212	200
	<u>\$ 825,809</u>	<u>672,675</u>
Property in custody or under administration	\$ 306,201	264,323
Collaterals received by the Entity	67,482	77,156
Collateral received and sold or delivered by the Entity	53,661	55,253
Investment banking operations on behalf of third parties, net	2,209,451	2,035,619
Uncollected accrued interest derived from loan portfolio with stage 3 credit risk	2,192	2,195
Other registration accounts	3,761,845	3,772,334

The historical balance of capital stock as of March 31, 2023 and December 31, 2022 is \$4,248.

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

This condensed consolidated statement of financial position was prepared in accordance with the Accounting Criteria for Credit Institutions, issued by the National Banking and Securities Commission, pursuant to Articles 99, 101 and 102 of the Banking Law, consistently applied and mandatory, showing the operations carried out by the institution up to the aforementioned date, which were carried out and valued in accordance with sound banking practices and the applicable legal and administrative provisions.

This condensed consolidated statement of financial position was approved by the Board of Directors under the responsibility of the officers who sign it (See note 2).

Eduardo Osuna Osuna
Chief Executive Officer

Luis Ignacio De la Luz Dávalos
Chief Financial Officer

Adolfo Arcos González
Head of Internal Audit

Ana Luisa Miriam Ordorica Amezcua
Head of Corporate Accounting

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

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

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

Interim Condensed Consolidated statement of comprehensive income
For the three months ended March 31, 2023 and 2022

(MXN millions)

	2023	2022
	(Unaudited)	
Interest income (Note 13)	\$ 70,338	50,179
Interest expense (Note 13)	(21,002)	(11,938)
Financial margin (Note 13)	49,336	38,241
Allowance for loan losses	(9,197)	(8,535)
Financial margin adjusted for loan losses	40,139	29,706
Commissions and fees collected (Note 14)	16,675	13,887
Commissions and fees paid (Note 14)	(7,019)	(5,779)
Financial intermediation income (Note 15)	2,519	2,324
Other operating income (expense)	(1,765)	(1,716)
Administrative and promotional expenses	(18,979)	(16,188)
Operating income	31,570	22,234
Interest in net income of other entities	24	35
Income before income tax	31,594	22,269
Income tax (Note 11)	(8,710)	(6,025)
Income from continuing operations	22,884	16,244
Discontinued operations	0	0
Net income	\$ 22,884	16,244
Other comprehensive income:		
Valuation of financial instruments to collect or sell	1,046	(2,291)
Valuation of derivative financial instruments for cash flow hedges	46	(446)
Remeasurement of employee defined benefits	50	200
Comprehensive income	\$ 24,026	13,707
Net income attributable to:		
Controlling and non-controlling interest	22,890	16,250
Non-controlling interest	(6)	(6)
Comprehensive income attributable to:		
Controlling and non-controlling interest	24,032	13,713
Non-controlling interest	(6)	(6)
Basic earnings per common share (pesos per share)	\$ 1.51	1.07

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

This condensed consolidated statement of comprehensive income was prepared in accordance with the Accounting Criteria for Credit Institutions, issued by the National Banking and Securities Commission, pursuant to Articles 99, 101 and 102 of the Banking Law, consistently applied and mandatory, showing the income and expenses derived from the transactions carried out by the institution during the aforementioned period, which were carried out and valued in accordance with sound banking practices and the applicable legal and administrative provisions.

This condensed consolidated statement of comprehensive income was approved by the Board of Directors under the responsibility of the officers who sign it (See note 2).

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Chief Executive Officer

Luis Ignacio De la Luz Dávalos
Chief Financial Officer

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

Av. Paseo de la Reforma 510, Col. Juárez, Ciudad de México, México
Interim Condensed Consolidated statement of changes in stockholders' equity
For the three months ended March 31, 2023 and 2022
(MXN millions)

	Paid in capital			Earned capital				Total controlling interest	Non-controlling interest	Total stockholders' equity
	Capital stock	Addition paid-in capital	Statutory reserves	Cumulative income	Valuation of financial instruments to collect or sell	Valuation of derivative financial instruments to hedge cash flows	Remeasurement of employee defined benefits			
Balances as of January 1, 2023	\$ 24,143	15,860	6,901	267,846	(8,703)	(1,353)	(4,740)	299,954	79	300,033
Owner's movements										
Declaration of dividends				(16,250)				(16,250)		(16,250)
Comprehensive income										
Net income				22,884				22,884	6	22,890
Other comprehensive income:										
Valuation of financial instruments to collect or sell					1,046			1,046		1,046
Result from valuation of cash flow hedging instruments						46		46		46
Remeasurement of employee defined benefits							50	50		50
Total	-	-	-	6,634	1,046	46	50	7,776	6	7,782
Balances as of march 31, 2023 (unaudited)	\$ 24,143	15,860	6,901	274,480	(7,657)	(1,307)	(4,690)	307,730	85	307,815
Balances as of December 31, 2021	\$ 24,143	15,860	6,901	245,355	(5,898)	(788)	(2,956)	282,617	51	282,668
Adjustments for accounting changes				(4,695)				(4,695)		(4,695)
Initial balances as of January 1, 2022	24,143	15,860	6,901	240,660	(5,898)	(788)	(2,956)	277,922	51	277,973
Comprehensive income										
Net income				16,244				16,244	6	16,250
Other comprehensive income:										
Valuation of financial instruments to collect or sell					(2,291)			(2,291)		(2,291)
Result from valuation of cash flow hedging instruments						(446)		(446)		(446)
Remeasurement of employee defined benefits							200	200		200
Total	-	-	-	16,244	(2,291)	(446)	200	13,707	6	13,713
Balances as of march 31, 2022 (unaudited)	\$ 24,143	15,860	6,901	256,904	(8,189)	(1,234)	(2,756)	291,629	57	291,686

This condensed consolidated statement of changes in stockholders' equity was prepared in accordance with the Accounting Criteria for Credit Institutions, issued by the National Banking and Securities Commission, pursuant to Articles 99, 101 and 102 of the Banking Law, consistently applied and mandatory, showing the movements in the stockholders' equity accounts derived from the transactions carried out by the institution during the aforementioned period, which were carried out and valued in accordance with sound banking practices and the applicable legal and administrative provisions.

This condensed consolidated statement of changes in stockholders' equity was approved by the Board of Directors under the responsibility of the officers who sign it (See note 2).

Eduardo Osuna Osuna
Chief Executive Officer

Luis Ignacio De la Luz Dávalos
Chief Financial Officer

Adolfo Arcos González
Head of Internal Audit

Ana Luisa Miriam Ordorica Amezcua
Head of Corporate Accounting

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

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

Interim Condensed Consolidated statement of cash flows

For the three months ended March 31, 2023 and 2022

(MXN millions)

	March 2023	March 2022
	(Unaudited)	
<u>Operating activities:</u>		
Income before income taxes	\$ 31,594	22,269
<u>Adjustments for items associated with investing activities:</u>		
Losses or reversal of losses due to impairment of long-lived assets	13	15
Depreciation of property, plant and equipment	659	619
Amortization of installation expenses	488	476
Amortization of intangible assets	418	410
Equity in net income of other entities	(24)	(35)
	1,554	1,485
<u>Changes in operating items:</u>		
Change in margin accounts (derivative financial instruments)	1,192	2,646
Change in investments in financial instruments (securities) (net)	22,239	36,681
Change in debtors on repurchases/resales	4,057	(24,619)
Change in derivative financial instruments (assets)	(3)	(36,057)
Change in loan portfolio (net)	(47,956)	(49,844)
Change in other accounts receivable (net)	(78,804)	(58,380)
Change in foreclosed assets (net)	80	(22)
Change in other operating assets (net)	33	(4,445)
Change in deposits	(20,368)	71,654
Change in interbank and other borrowings	(618)	7,802
Change in creditors on repurchases/resales	41,553	(11,386)
Change in Securities lending	1	(1)
Change in collateral sold or pledged	(1,106)	2,696
Change in derivative financial instruments (liabilities)	(825)	34,344
Change in other operating liabilities	79,365	18,282
Change in derivative financial instruments hedged (of hedged items related to operating activities)	(1,667)	(1,415)
Change in assets/liabilities from employee benefits	(2,970)	(1,598)
Change in other accounts payable	(10,597)	28,607
Payments of income tax	(14,354)	(4,576)
	2,400	34,123
Net cash flows from operating activities		
<u>Investment activities:</u>		
Proceeds for disposal of property, plant and equipment	17	11
Payments for acquisition of property, plant and equipment	(906)	(279)
Payments for acquisition of intangible assets	(388)	(37)
	(1,277)	(305)
Net cash flows from investing activities		
<u>Financing activities:</u>		
Cash dividend payments	(16,250)	0
Payments associated with financial instruments that qualify as liabilities	(405)	(953)
	(16,655)	(953)
Net cash flows from financing activities		
Net increase or decrease in cash and cash equivalents	(15,532)	(32,865)
Effects from changes in the value of cash and cash equivalents	(10,608)	(4,413)
Cash and cash equivalents at the beginning of period	275,795	301,088
Cash and cash equivalents at the end of the period	\$ 249,655	329,540

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

This condensed consolidated statement of cash flow was prepared in accordance with the Accounting Criteria for Credit Institutions, issued by the National Banking and Securities Commission, pursuant to Articles 99, 101 and 102 of the Banking Law, consistently applied and mandatory, showing the cash inflows and cash outflows derived from the transactions carried out by the institution during the aforementioned period, which were carried out and valued in accordance with sound banking practices and the applicable legal and administrative provisions.

This condensed consolidated statement of cash flow was approved by the Board of Directors under the responsibility of the officers who sign it (See note 2)

Eduardo Osuna Osuna
Chief Executive Officer

Luis Ignacio De la Luz Dávalos
Chief Financial Officer

Adolfo Arcos González
Head of Internal Audit

Ana Luisa Miriam Ordorica Amezcua
Head of Corporate Accounting

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

Notes to the Interim Condensed Consolidated Financial Statements
March 31, 2023, December 31, 2022 and March 31, 2022
(MXN millions, except otherwise noted)

(1) Activity and operating regulatory environment-

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

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

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

(2) Authorization, basis of presentation and changes to the Institution accounting policies-

Authorization

On May 12, 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 “financial statements”).

Basis of presentation

The interim condensed consolidated financial statements for the three months ended 31 March 2023 have been prepared in accordance with Mexican Financial Reporting Standards B-9 Interim Financial Reporting. The Bank has prepared the financial statements on the basis that it will continue to operate as a going concern. The Directors consider that there are no material uncertainties that may cast significant doubt over this assumption. They have formed a judgment that there is a reasonable expectation that the Bank has adequate resources to continue in operational existence for the foreseeable future, and not less than 12 months from the end of the reporting period.

**BBVA México, S.A., Institución de Banca Múltiple,
Grupo Financiero BBVA México y subsidiarias**

Basis of presentation (continuance)

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Bank's annual consolidated financial statements as at 31 December, 2022.

New standards, interpretations and amendments adopted by the Institution

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Bank's annual consolidated financial statements for the year ended 31 December 2022, except for the adoption of new standards effective as of 1 January 2023. The Bank has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

Several amendments apply for the first time in 2023, but do not have a significant impact on the interim condensed consolidated financial statements of the Bank.

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.

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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 follow-up.

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.

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Amortization of deferred items of loan portfolio with effective interest rate (continuance)

- 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;

- 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 from renegotiation is not applicable to credit cards, nor to 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:

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Amortization of deferred items of loan portfolio with effective interest rate (continuance)

- 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.

(3) 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.

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 March 31, 2023 (unaudited):

	Level 1	Level 2	Level 3	Total	Valuation Techniques	Main input data	Additional Data
Assets							
Negotiable financial instruments							
Fixed Income	\$ 61,359	\$ 136,988	\$ 1,381	\$ 199,728	Price provided by Valmer ¹		
Variable Income	1,254	-	7	1,261	Price provided by Valmer ¹		
Financial instruments to collect or sell							
Fixed Income	137,190	52,471	29	189,690	Price provided by Valmer ¹		
Variable Income	-	-	-	-	Price provided by Valmer ¹		
Derivatives for trading purposes							
Forwards	-	44,092	276	44,368	- Equity futures and forwards: Discounted cash flows	- Exchange rates - Futures prices quoted in the market	
Options	4	8,074	1,197	9,275	- 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	- 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

¹ Valmer: The institution's Price provider; Valuación Operativa y Referencias de Mercado, S.A. de C.V. (Valmer).

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	Level 1	Level 2	Level 3	Total	Valuation Techniques	Main input data	Additional Data
Swaps	-	155,502	376	155,878	- 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							
Swaps	-	7,821	-	7,821	- 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	
Loan portfolio valued at fair value	-	-	4,945	4,945	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	-	44,009	3	44,012	- Equity futures and forwards: Discounted cash flows - Options on bonds: Black 76 - Equity Options: Local Volatility, Black 76, Binomial Tree	- Exchange rates - Futures prices quoted in the market - Market interest rates - Underlying asset prices: stocks; funds; commodities	- Implicit correlations between tenors - Interest rate volatility
Options	1	28,312	2,139	30,452	- Exchange Rate Options: Black 76, Local Volatility, Binomial Tree - Other interest rate options: Black 76, SABR and LGM	- Volatilities observed in the market - Issuer credit spread levels - Quoted dividends - Correlations quoted in the market	- Volatility of volatility - Implicit asset correlations - Implied long-term volatilities - Embedded derivatives
Swaps	-	155,881	1,182	157,063	- Discounted cash flows. - Swaptions: Black and LGM		
Derivatives for hedging purposes							
Swaps	-	7,175	-	7,175	- 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	

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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	Main input data	Additional Data
Assets							
Negotiable financial instruments							
Fixed Income	\$ 99,866	\$ 142,845	\$ 1,419	\$ 244,130	Price provided by Valmer		
Variable Income	721	-	1	722	Price provided by Valmer		
Financial instruments to collect or sell							
Fixed Income	140,840	53,484	54	194,378	Price provided by Valmer		
Variable Income	653	-	-	653	Price provided by Valmer		
Derivatives for trading purposes							
Forwards	-	26,112	298	26,410	- Equity futures and forwards: Discounted cash flows - Options on bonds: Black 76 - Equity Options: Local Volatility, Black 76, Binomial Tree	- Exchange rates - Futures prices quoted in the market	
Options	232	6,927	1,017	8,176	- Exchange Rate Options: Black 76, Local Volatility, Binomial Tree - Other interest rate options: Black 76, SABR and LGM - Linear interest rate products (Interest rate swaps, Call money swaps and FRA): Discounted cash flows. - Swaptions: Black and LGM - Constant maturity swaps: SABR	- 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
Swaps	-	174,526	407	174,933			
Derivatives for hedging purposes							
Swaps	-	6,647	-	6,647	- 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	
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							

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	Level 1	Level 2	Level 3	Total	Valuation Techniques	Main input data	Additional Data
Forwards	-	27,961	14	27,975	- Equity futures and forwards: Discounted cash flows		
Options	294	25,738	4,903	30,935	- 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 - Discounted cash flows.	- 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 - Implied long-term volatilities - Embedded derivatives
Swaps	-	172,662	1,170	173,832	- 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.

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- 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 on the historical evolution of the underlying that uses Monte Carlo simulation for its valuation.

a.2. Quantitative information on unobservable inputs

Quantitative information of the unobservable input data used to calculate Level 3 valuations is presented below:

March 31, 2023 (unaudited)					
Derivatives for trading purposes	Significant Unobservable Inputs	Min	Average	Max	Units
Options on Equity Underlying	Equity volatilities	10.00	12.90	24.71	vegas ²
	Equity/Equity and Equity/FX Correlations	(44.47)%	(15.29)%	65.11%	%
Options on Exchange Rate Underlying	Exchange Rate Volatilities	7.88	11.72	12.57	vegas
Options on Interest Rate Underlying	Interest Rate Volatilities	16.36	24.88	28.78	vegas
December 31, 2022					
Derivatives for trading purposes	Significant Unobservable Inputs	Min	Average	Max	Units
Options on Equity Underlying	Equity volatilities	10.00	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

² Vegas: movement in value of the derivative instrument that comes from no observable volatility (input used in valuation of options). movimiento que presenta el valor del instrumento derivado de los cambios en la volatilidad no observable (input utilizado en la valuación de opciones).

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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 amounts recorded in the statement of financial position as of March 31, 2023 (unaudited) and December 31, 2022 corresponding to credit risk valuation adjustments of derivative positions amounted per CVA to \$(626) and \$(567), respectively, and per DVA to \$736 and \$957, respectively.

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:

	March 2023 (unaudited)		December 2022	
	Assets	Liabilities	Assets	Liabilities
Balance at the beginning	\$ 3,197	\$ (6,087)	\$ 3,122	\$ (1,334)
Changes in fair value recognized in profit and loss:				
Realized	(69)	100	239	(119)
Unrealized	(414)	1	(885)	18
Changes in fair value recognized in other comprehensive income:				
Purchased	950	-	1,395	-
Sales	(54)	-	(1,110)	-
Derecognition	(259)	210	(163)	146
Issuances	572	(1,195)	1,204	(4,847)
Net inflows / outflows of Level 3	(657)	3,647	(605)	49
Balance at the end	\$ 3,266	\$ (3,324)	\$ 3,197	\$ (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.”

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a.5. Transfers between levels

The amounts of financial instruments that were transferred between the different levels of the hierarchy were as follows:

During 2023 (unaudited)

Assets	From: to:	Level 1		Level 2		Level 3	
		Level 2	Level 3	Level 1	Level 3	Level 1	Level 2
Negotiable financial instruments							
Debt	\$	391	\$ -	\$ 1,058	\$ 726	\$ -	\$ 508
Equity		-	1	-	-	-	-
Financial instruments to collect or sell							
Debt		-	-	1,142	29	-	-
Equity		-	-	-	-	-	-
Derivatives for trading purposes		-	-				
Forwards		-	-	-	-	-	104
Options		-	-	307	-	-	259
Swaps		-	-	-	-	-	113
Derivatives for hedging purposes							
Swaps		-	-	-	-	-	-
Portfolio at fair value		-	-	-	-	-	-
Total	\$	391	\$ 1	\$ 2,507	\$ 755	\$ -	\$ 984

Liabilities	From: to:	Level 1		Level 2		Level 3	
		Level 2	Level 3	Level 1	Level 3	Level 1	Level 2
Derivatives for trading purposes							
Futures	\$	-	\$ -	\$ -	\$ -	\$ -	\$ 1
Options		-	-	-	297	-	3,784
Swaps		-	-	-	12	-	172
Derivatives for hedging purposes							
Futures		-	-	-	-	-	-
Swaps		-	-	-	-	-	-
Total	\$	-	\$ -	\$ -	\$ 309	\$ -	\$ 3,956

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a.5. Transfers between levels (continuance)

During 2022

Assets	From: to:	Level 1		Level 2		Level 3	
		Level 2	Level 3	Level 1	Level 3	Level 1	Level 2
Negotiable financial instruments							
Debt		\$ –	\$ –	\$ –	\$ 54	\$ –	\$ 357
Equity		–	–	–	1	–	–
Financial instruments to collect or sell							
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		\$ 121,757	\$ –	\$ –	\$ 280	\$ –	\$ 889

Liabilities	From: to:	Level 1		Level 2		Level 3	
		Level 2	Level 3	Level 1	Level 3	Level 1	Level 2
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%).

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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 March 31, 2023 (unaudited) and 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 2023 (unaudited)		Possible variation in the MtM derived from the uncertainty in the unobservable parameter 2022	
	Most favorable scenario	Least favorable scenario	Most favorable scenario	Least favorable scenario
Derivatives for trading purposes				
Equity Underlying Options	\$ 1	\$ (1)	\$ 10	\$ (10)
Options on Underlying Exchange Rate	4	(4)	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. The new methodology for the construction of the curve uses market facts and applicable bid/ask prices, and when market data is not available, a theoretical relationship is used, based on the assumption that the spread between the Basis and Government curves coincides between both currencies, MXN and UDI. Since this theoretical relationship is not necessarily exact, a spread is included that is calibrated to the market, so that the market Par rate is recovered when it exists; and it is used to determine the level of the rate for later dates until new market data is available.

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 (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):

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As of March 31, 2023 (unaudited)

Assets	Balance			Total	Valuation Techniques	Main input data
	Level 1	Level 2	Level 3			
Cash and cash equivalents	\$ 249,655	\$ -	\$ -	\$ 249,655	The value of the transaction plus accrued interest	
Margin accounts	-	8,130	-	8,130	The carrying value is the best approximation of its fair value.	
Repurchase agreement receivables	-	22,267	-	22,267	The carrying value is the best approximation of its fair value.	
Investments in financial instruments (FICPI)	113,111	2,947	-	116,058	The value of the transaction plus accrued interest. (level 2)	
Loan portfolio with stage 1, 2 and 3 credit risk	-	-	1,519,846	1,519,846	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	183,765	-	-	183,765	The carrying value is the best approximation of its fair value	
Debtors for collateral in cash	-	8,611	-	8,611	The carrying value is the best approximation of its fair value	
Sundry debtors (staff loans)	-	-	15,088	15,088	Present Value Method (Discounted Future Cash Flows)	- Credit spread - Prepaid rate - Interest rates - Credit spread - Prepaid rate - Interest rates
Liabilities						
Traditional deposits						
Demand deposits	-	-	1,323,166	1,323,166	The carrying value is the best approximation of its fair value.	
Time deposits	-	-	-	-		
Of the general public	-	-	237,367	237,367	Present Value Method (Discounted Future Cash Flows)	- Issuer credit risk - Prepaid rate - Interest rates
Mercado de Dinero	9,837	-	-	9,837	Price provided by Valmer	
Negotiable instruments issued	-	69,439	-	69,439	The carrying value is the best approximation of its fair value. (level 2)	
Global deposit account without transactions	-	-	6,495	6,495	The carrying value is the best approximation of its fair value.	
Bank and other borrowings						
Short term	102	135	5,565	5,802	Present Value Method (Discounted Future Cash Flows)	- Issuer credit risk - Prepaid rate - Interest rates
Long term	23,758	879	6,952	31,589	Present Value Method (Discounted Future Cash Flows)	- Issuer credit risk - Prepaid rate - Interest rates
Balance						
Assets	Level 1	Level 2	Level 3	Total	Valuation Techniques	Main input data
Repurchase/resale agreements payable	\$ -	\$ 228,610	\$ -	\$ 228,610	The carrying value is the best approximation of its fair value.	
Collateral sold or pledged	-	53,628	-	53,628	The carrying value is the best approximation of its fair value.	
Other accounts payable						
Creditors on settlement of transactions	87,002	-	-	87,002	The carrying value is the best approximation of its fair value.	
Creditors on margin accounts	-	190	-	190	The carrying value is the best approximation of its fair value.	
Creditors on collateral received in cash	-	18,680	-	18,680	The carrying value is the best approximation of its fair value.	
Financial instruments classified as liabilities						
Subordinated obligations outstanding	22,728	-	-	22,728		

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As of December 31, 2022.

Assets	Balance			Total	Valuation Techniques	Main input data
	Level 1	Level 2	Level 3			
Cash and cash equivalents	\$ 275,795	\$ -	\$ -	\$ 275,795	The value of the transaction plus accrued interest	
Margin accounts	-	9,718	-	9,718	The value of the transaction plus accrued interest	
Repurchase agreement receivables	-	26,324	-	26,324	The value of the transaction plus accrued interest	
Investments in financial instruments (FICPI)	88,254	2,065	-	90,319	The value of the transaction plus accrued interest (level 2)	
Loan portfolio with stage 1, 2 and 3 credit risk	-	-	1,507,551	1,507,551	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
Liabilities						
Traditional deposits						
Demand deposits	-	-	1,367,048	1,367,048	The value of the transaction plus accrued interest.	
Time deposits						
Of the general public	-	63	243,725	243,788	Present Value Method (Discounted Future Cash Flows)	- 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	The value of the transaction plus accrued interest (level 2)	
Global deposit account without transactions	-	-	6,716	6,716	The value of the transaction plus accrued interest.	
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 - Issuer credit risk
Long term	23,190	1,177	7,473	31,840	Present Value Method (Discounted Future Cash Flows)	- Prepaid rate - Interest rates
Balance						
Assets	Level 1	Level 2	Level 3	Total	Valuation Techniques	Main input data
Repurchase/resale agreements payable	\$ -	\$ 185,263	\$ -	\$ 185,263	The value of the transaction plus accrued interest.	
Collateral sold or pledged	-	54,734	-	54,734	The value of the transaction plus accrued interest	
Other accounts payable						
Creditors on settlement of transactions	13,847	-	-	13,847	The value of the transaction plus accrued interest	
Creditors on margin accounts	-	342	-	342	The value of the transaction plus accrued interest.	
Creditors on collateral received in cash	-	13,438	-	13,438	The value of the transaction plus accrued interest	
Financial instruments classified as liabilities						
Subordinated obligations outstanding	35,009	-	-	35,009		

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(4) Cash and cash equivalents

Cash and cash equivalents is as shown below:

	March 2023	December 2022
	(unaudited)	
Cash	\$ 42,998	\$ 47,336
Banks	172,515	194,415
Restricted cash in hand:		
Purchase of foreign currency	212,662	135,363
Sale of foreign currency	(290,668)	(227,898)
Deposits at Central Bank	34,069	34,002
Interbank loans (call money)	-	-
Other cash and cash equivalents	73	42
	<u>171,649</u>	<u>183,260</u>
Reclassification to liability to offset foreign currency purchases and sales	78,006	92,535
	<u>\$ 249,655</u>	<u>\$ 275,795</u>
Total		

Banks is represented by cash in MXN and US dollars using the closing exchange rate published by the Central Bank. As of March 31, 2023 (unaudited) and December 31, 2022 of MXN 18.0201 and MXN 19.5089 per US dollar, respectively.

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(5) Investments in financial instruments-

As of March 31, 2023 (unaudited) and December 31, 2022, investments in financial instruments are made up as shown below:

a. Negotiable Financial Instruments (NFI)

Instrument	March 2023 (unaudited)			
	Acquisition cost	Interest accrued	Increase (decrease) by valuation	Carrying value
Unrestricted:				
Equity shares, net	\$ 1,139	\$ -	\$ 89	\$ 1,228
	39	-	(7)	32
Sovereign debt Eurobonds	2,644	16	(62)	2,598
Fixed-rate government bonds	3,465	36	29	3,530
Promissory notes with returns settled at maturity	-	-	-	-
Federal Mexican Treasury Securities (CETES)	7,566	-	(9)	7,557
Federal Government Development Bonds (BONDES)	1,498	5	(1)	1,502
Corporate Eurobonds	57	2	1	60
Securitized bank debt certificates	557	2	(5)	554
Securitized debt certificates	7,100	52	31	7,183
Exchangeable securitized debt certificates (CBICS)	995	10	(64)	941
Federal Government Development Bonds in UDIS (UDIBONOS)	969	12	14	995
Mexican Bank Saving Protection Bonds (BPAS)	17,903	343	40	18,286
Investment funds	-	-	-	-
Treasury notes	157	2	(2)	157
Total unrestricted	44,089	480	54	44,623
Restricted:				
Collateral granted (a.1.)	\$ 170,423	\$ 2,011	\$ (93)	\$ 172,341
Value date purchases	10,687	108	16	10,811
Value date sales	(26,584)	(171)	(31)	(26,786)
Total	\$ 198,615	\$ 2,428	\$ (54)	\$ 200,989

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(5) Investments in financial instruments (continuance)

Instrument	December 2022			
	Acquisition cost	Interest accrued	Increase (decrease) by valuation	Carrying value
Unrestricted:				
Equity shares, net	\$ 769	\$ –	\$ (100)	\$ 669
	73	–	(25)	48
Sovereign debt Eurobonds	2,165	39	(95)	2,109
Fixed-rate government bonds	2,151	28	(8)	2,171
Promissory notes with returns settled at maturity	–	–	–	–
Federal Mexican Treasury Securities (CETES)	21,042	–	(80)	20,962
Federal Government Development Bonds (BONDES)	9,327	63	(4)	9,386
Corporate Eurobonds	76	–	–	76
Securitized bank debt certificates	916	8	(7)	917
Securitized debt certificates	6,690	54	3	6,747
Exchangeable securitized debt certificates (CBICS)	1,178	17	(61)	1,134
Federal Government Development Bonds in UDIS (UDIBONOS)	2,125	6	2	2,133
Mexican Bank Saving Protection Bonds (BPAS)	23,834	713	(68)	24,479
Investment funds	–	–	–	–
Treasury notes	342	–	(11)	331
Total unrestricted	70,688	928	(454)	71,162
Restricted:				
Collateral granted (a.1.)	\$ 169,154	\$ 2,219	\$ (844)	\$ 170,529
Value date purchases	7,182	58	(2)	7,238
Value date sales	(4,032)	(41)	(4)	(4,077)
Total	\$ 242,992	\$ 3,164	\$ (1,304)	\$ 244,852

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(5) Investments in financial instruments (continuance)

a.1. Collateral granted:

March 31, 2023 (unaudited)				
Instrument	Acquisition cost	Interest accrued	Increase (decrease) by valuation	Carrying value
Collateral under securities lending:				
Federal Government Development Bonds in UDIS (UDIBONOS)	7,579	111	–	7,690
Bono IPAB	–	–	–	–
Fixed-rate government bonds	–	–	–	–
BONDES	10,928	30	(8)	10,950
BPAS	11,415	69	12	11,496
CETES	7,667	–	(18)	7,649
Total collateral under securities lending	37,589	210	(14)	37,785
Collateral under repurchase/resale agreements:				
Securitized bank debt certificates	1,333	18	(136)	1,215
BONDES	5,397	8	(2)	5,403
Fixed-rate government bonds	32,333	248	210	32,791
BPAS	67,774	1,385	(37)	69,122
CETES	13,294	–	12	13,306
UDIBONOS	1,951	27	27	2,005
CBICS	6,522	58	(118)	6,462
Eurobonds	–	–	–	–
Securitized debt certificates	390	2	–	392
Total collateral under repurchase/resale agreements	128,994	1,746	(44)	130,696
Other collateral:				
Fixed-rate government bonds	408	1	1	410
BPAS	1,615	50	(6)	1,659
CETES	753	–	(2)	751
Securitized debt certificates	392	1	(1)	392
Corporate Eurobonds	120	1	(14)	107
Treasury notes	552	2	(13)	541
Total other collateral	3,840	55	(35)	3,860
Total restricted securities by collateral granted	\$ 170,423	\$ 2,011	\$ (93)	\$ 172,341

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a.1. Collateral granted (continuance):

December 31, 2022				
Instrument	Acquisition cost	Interest accrued	Increase (decrease) by valuation	Carrying value
Collateral under securities lending:				
Equity shares, net	\$ -	\$ -	\$ -	\$ -
Bono IPAB	-	-	-	-
Fixed-rate government bonds	-	-	-	-
BONDES	14,503	13	(10)	14,506
BPAS	14,777	466	(23)	15,220
CETES	12,559	-	(46)	12,513
Total collateral under securities lending	41,839	479	(79)	42,239
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	1,068	30	-	1,098
CETES	-	-	-	-
Securitized debt certificates	392	3	(1)	394
Corporate Eurobonds	177	2	(20)	159
Treasury notes	330	2	(12)	320
Total other collateral	1,967	37	(33)	1,971
Total restricted securities by collateral granted	\$ 169,154	\$ 2,219	\$ (844)	\$ 170,529

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b. Financial Instruments to Collect or Sell (FICS) as of March 31, 2023 (unaudited) and December 31, 2022, are made up as follows:

Instrument	March 2023 (unaudited)			
	Acquisition cost	Interest accrued	Increase (decrease) by valuation	Carrying value
Unrestricted securities:				
Equity shares, net	\$ –	\$ –	\$ –	\$ –
CETES	–	–	–	–
Sovereign debt Eurobonds	–	–	–	–
Corporate Eurobonds	21,180	273	(1,998)	19,455
Fixed-rate government bonds	29,547	651	(3,305)	26,893
BONDES	–	–	–	–
BPAS	1,493	63	(7)	1,549
Securitized bank debt certificates	2,304	21	(190)	2,135
CEDES	16	–	(2)	14
Treasury	695	7	–	702
UMS	–	–	–	–
BREMS R ⁽¹⁾	32,717	160	(72)	32,805
UDIBONOS	–	–	–	–
Total unrestricted	87,952	1,175	(5,574)	83,553
Restricted ^(b.1.)	111,384	1,983	(7,230)	106,137
	\$ 199,336	\$ 3,158	\$ (12,804) ⁽²⁾	\$ 189,690

(1) BREMS R part of the Monetary Regulation Deposit

(2) As of March 31, 2023, 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 \$7,657 of the derivatives that hedge said position of securities.

Instrument	December 2022			
	Acquisition cost	Interest accrued	Increase (decrease) by valuation	Carrying value
Unrestricted securities:				
Equity shares, net	\$ 524	\$ –	\$ 129	\$ 653
CETES	–	–	–	–
Sovereign debt Eurobonds	21,852	286	(2,389)	19,749
Corporate Eurobonds	1,857	92	(216)	1,733
Fixed-rate government bonds	66,019	670	(5,617)	61,072
BONDES	–	–	–	–
BPAS	10,596	333	(21)	10,908
Securitized bank debt certificates	17	–	(2)	15
CEDES	–	–	–	–
Treasury	1,044	8	–	1,052
UMS	–	–	–	–
BREMS R ⁽¹⁾	32,709	95	(73)	32,731
UDIBONOS	–	–	–	–
Total unrestricted	134,618	1,484	(8,189)	127,913
Restricted ^(b.1.)	71,781	937	(5,600)	67,118
	\$ 206,399	\$ 2,421	\$ (13,789)	\$ 195,031

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

(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.

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b.1. The collateral granted (restricted securities) of financial instruments to collect or sell as of March 31, 2023 (unaudited) and December 31, 2022 is summarized as follows:

March 2023 (unaudited)				
Instrument	Acquisition cost	Interest accrued	Increase (decrease) by valuation	Carrying value
Securitized debt certificates, corporate	\$ 119	\$ 2	\$ (7)	\$ 114
Fixed-rate government bonds	631	9	(57)	583
BPAS	5,254	135	(20)	5,369
Corporate Eurobonds	1	-	-	1
Securities lending	\$ 6,005	\$ 146	\$ (84)	\$ 6,067
Fixed-rate government bonds	92,829	1,585	(6,806)	87,608
Securitized debt certificates	2,559	56	(175)	2,440
Securitized bank debt certificates	1,578	13	(149)	1,442
Corporate Eurobonds	179	3	(5)	177
BPAS	8,234	179	(10)	8,403
Collateral under repurchase/resale agreements	\$ 105,379	\$ 1,836	\$ (7,145)	\$ 100,070
Treasury bills	-	-	-	-
Total restricted	\$ 111,384	\$ 1,982	\$ (7,229)	\$ 106,137

December 2022				
Instrument	Acquisition cost	Interest accrued	Increase (decrease) by valuation	Carrying value
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
Fixed-rate government bonds	61,995	728	(5,188)	57,535
Securitized debt certificates	2,881	39	(167)	2,753
Securitized bank debt certificates	1,580	20	(158)	1,442
Corporate Eurobonds	194	2	(7)	189
Collateral under repurchase/resale agreements	\$ 66,650	\$ 789	\$ (5,520)	\$ 61,919
Treasury bills	-	-	-	-
Total restricted	\$ 71,781	\$ 937	\$ (5,600)	\$ 67,118

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c. Financial Instruments to Collect Principal and Interest (FICPI) as of March 31, 2023 and December 31, 2022, are made up as follows:

Instrument	March 2023 (unaudited)		
	Acquisition cost	Interest accrued	Carrying value
Mortgage Debtor Support Program - Special CETES (nota 7)	\$ 1,604	\$ -	\$ 1,604
Fixed-rate government bonds	78,312	960	79,272
Deposit certificates	1,324	9	1,333
Corporate Eurobonds	14,959	164	15,123
Treasury	5,390	76	5,466
CETES	1,428	-	1,428
CBICS	-	-	-
UDIBONOS	14,999	151	15,150
Total to collect principal and interest	118,016	1,360	119,376
Allowance for expected loan losses for investments in financial instruments to collect principal and interest (securities)			(24)
Total to collect principal and interest, net			\$ 119,352

Instrument	December 2022		
	Acquisition cost	Interest accrued	Carrying value
Mortgage Debtor Support Program - Special CETES (nota 7)	\$ 1,562	\$ -	\$ 1,562
Fixed-rate government bonds	60,975	872	61,847
Deposit certificates	500	3	503
Corporate Eurobonds	10,731	177	10,908
Treasury	5,835	23	5,858
CETES	1,394	-	1,394
CBICS	-	-	-
UDIBONOS	11,826	25	11,851
Total to collect principal and interest	92,823	1,100	93,923
Allowance for expected loan losses for investments in financial instruments to collect principal and interest (securities)			(24)
Total to collect principal and interest, net			\$ 93,899

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.

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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 March 31, 2023 (unaudited) and December 31, 2022, there are no investments in debt securities other than government securities of the same issuer that exceed 5% of the Institution's global capital.

As of March 31, 2023 (unaudited) and December 31, 2022, the Institution does not maintain investments that come from unobservable markets.

(6) Derivative financial instruments-

As of March 31, 2023 (unaudited) and December 31, 2022, securities and derivative transactions are as follows:

a. Derivative financial instruments.- The Institution 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:

	March 2023 (unaudited)			
	Carrying value		Balance	
	Assets	Liabilities	Asset	Liability
Futures long position	\$ 27,779	\$ 27,779	\$ -	\$ -
Futures short position	23,377	23,377	-	-
Forwards long position	693,399	730,276	4,236	41,112
Forwards short position	689,935	652,703	40,132	2,900
Options purchased	9,275	-	9,275	-
Options sold	-	30,562	-	30,562
Swaps	1,550,762	1,551,838	155,878	156,954
	\$ 2,994,527	\$ 3,016,535	\$ 209,521	\$ 231,528

Hedging:

	March 2023 (unaudited)				
	Nominal amount		Balance		Net position
	Assets	Liabilities	Assets	Liabilities	
Futures					
Forwards long position	\$ -	\$ -	\$ -	\$ -	\$ -
Swaps	97,031	96,385	7,821	7,175	646
	\$ 97,031	\$ 96,385	\$ 7,821	\$ 7,175	\$ 646

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(6) Derivative financial instruments- (continuance)

Trading:

	December 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:

	December 2022				
	Nominal amount		Balance		
	Assets	Liabilities	Assets	Liabilities	Net position
Futures	\$ –	\$ –	\$ –	\$ –	\$ –
Forwards long position	–	–	–	–	–
Swaps	87,306	89,479	6,647	8,820	(2,173)
	\$ 87,306	\$ 89,479	\$ 6,647	\$ 8,820	\$ (2,173)

(7) 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.

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(7) Loan portfolio (continuance)

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 March 31, 2023 are as follows:

	Stage 1	Stage 2	Stage 3	Total
Commercial loans				
Denominated in MXN				
Commercial	415,505	13,109	5,588	434,202
Rediscounted portfolio	8,892	72	89	9,053
Leases	2,556	2	17	2,575
Denominated in UDIs (MXN equivalent):				
Commercial	1	–	3	4
Denominated in foreign currency (MXN equivalent):				
Commercial	174,373	4,576	1,916	180,865
Rediscounted portfolio	968	–	–	968
Leases	2,672	–	–	2,672
	<u>604,967</u>	<u>17,759</u>	<u>7,613</u>	<u>630,339</u>
Commercial or business activity				
Denominated in MXN:				
Loans to financial entities	33,114	–	10	33,124
Loans to government entities	169,745	–	–	169,745
Denominated in foreign currency (MXN equivalent):				
Loans to financial entities	247	–	–	247
Loans to government entities	15,933	–	–	15,933
	<u>219,039</u>	<u>–</u>	<u>10</u>	<u>219,049</u>
Interest collected in advance	(601)	–	–	(601)
Total, commercial loans	<u>823,405</u>	<u>17,758</u>	<u>7,623</u>	<u>848,787</u>
Consumer loans				
Denominated in MXN:				
Credit cards	142,368	4,777	3,422	150,567
Other consumer loans	215,407	5,071	5,904	226,382
Denominated in foreign currency (MXN equivalent):				
Other consumer loans	–	–	–	–
	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
Total, consumer loans	<u>357,775</u>	<u>9,848</u>	<u>9,326</u>	<u>376,949</u>

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(7) Loan portfolio (continuance)

	Stage 1	Stage 2	Stage 3	Total
Mortgage loans-				
Denominated in MXN:				
Medium and residential	292,925	10,437	5,788	309,150
Low income	4,147	472	195	4,814
Denominated in UDIs (MXN equivalent):				
Medium and residential	2,141	230	110	2,481
Denominated in foreign currency (MXN equivalent):				
Medium and residential	5	–	–	5
Total, mortgage loans	299,218	11,139	6,093	316,450
Total, loan portfolio	1,480,398	38,746	23,042	1,542,186

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

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(7) Loan portfolio (continuance)

	Stage 1	Stage 2	Stage 3	Total
Mortgage loans-				
Denominated in MXN:				
Medium and residential	287,233	9,736	6,401	303,370
Low income	4,098	465	231	4,794
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 March 31, 2023 (unaudited) and December 31, 2022, the performing commercial loan portfolio includes a restricted portfolio in the amount of \$21,641 and \$22,148, respectively, granted as a guarantee from bank and other borrowings, to secure compliance with the Institution's obligation under the financing granted by the Central Bank for \$24,350 and \$23,768, respectively, 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".

(8) Allowance for loan losses

Loan ratings of the Institution, which includes the amounts for irrevocable loans and letters of credit recorded in memorandum accounts, made for the purpose of recording the loan loss allowance as of March 31, 2023 and December 31, 2022, is composed as shown below.

March 2023 (unaudited)						
Allowances						
Risk category	Portfolio Exposure			Mortgage	Total allowances	
	Rating	Base	Commercial			
A1	\$	1,191,675	\$ 1,747	\$ 2,307	\$ 253	\$ 4,307
A2		74,582	476	1,205	32	1,713
B1		89,166	141	2,931	32	3,104
B2		46,117	136	1,894	48	2,078
B3		25,629	362	1,123	30	1,515
C1		41,116	533	2,272	302	3,107
C2		34,549	1,105	3,412	179	4,696
D		18,084	1,277	3,894	615	5,786
E		23,245	5,074	8,979	1,798	15,851
		1,544,163	10,851	28,017	3,289	42,157
Additional allowance		-	1,365	5,553	-	6,918
Total	\$	1,544,163	\$ 12,216	\$ 33,570	\$ 3,289	\$ 49,075

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(8) Allowance for loan losses (continuance)

December 2022						
		Allowances				
Risk category	Portfolio Exposure					Total allowances
	Rating Base	Commercial	Consumer	Mortgage		
A1	\$ 1,157,766	\$ 1,733	\$ 3,392	\$ 231	\$ 5,356	
A2	73,235	474	1,418	24	1,916	
B1	88,453	173	2,901	42	3,116	
B2	46,601	119	2,000	70	2,189	
B3	30,422	429	1,312	33	1,774	
C1	42,060	699	2,568	224	3,491	
C2	30,078	342	3,223	327	3,892	
D	24,987	1,786	3,305	2,024	7,115	
E	20,037	4,676	8,831	314	13,821	
	1,513,639	10,431	28,950	3,289	42,670	
Additional allowance	-	1,365	5,553	-	6,918	
Total	\$ 1,513,639	\$ 11,796	\$ 34,503	\$ 3,289	\$ 49,588	

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 March 31, 2023 (unaudited) and December 31, 2022 is determined based on the balance of the portfolio at such dates. The allowance for loan losses as of March 31, 2023 (unaudited) and December 31, 2022 covers 100% of past due interest.

The amount of the allowance for loan losses as of March 31, 2023 (unaudited) and December 31, 2022 includes the classification of loan granted in foreign currency valued at the exchange rate in effect on said dates.

As of March 31, 2023 (unaudited) and December 31, 2022, the allowance for loan losses represents 212.98% and 207.93%, respectively, of the stage 3 portfolio.

The allowance for loan losses as of March 31, 2023 (unaudited) and December 31, 2022 amounts to \$49,075 and \$49,588, respectively, which includes an allowance of \$42,157 and \$42,670, respectively, 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."

Allowance for loan losses by type of portfolio is as follows:

	March 2023 (unaudited)	December 2022
Commercial or business activity	\$11,070	\$ 10,916
Financial entities	432	336
Government entities	714	544
Commercial loans:	12,216	11,796
Consumer loans	33,570	34,503
Mortgage loans	3,289	3,289
Total, loan allowances	49,075	\$ 49,588

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(9) Deposits-

Traditional deposits is made up as follows:

	March 2023	December 2022
	(unaudited)	
Demand deposits ^(a) :		
Demand deposits	\$ 1,323,166	\$ 1,367,045
Time deposits:		
General public	237,306	243,521
Money Market	9,837	4,110
Negotiable instruments issued	93,708	88,819
Inactive deposit global account	6,495	6,716
Total	\$1,670,512	\$ 1,710,211

^(a) As of March 31, 2023 (unaudited), the average rates in pesos of demand deposits based on their short- and long-term enforceability are 1.65% and 7.51%, respectively, and as of December 31, 2022 are 1.43% and 7.10%, respectively

Description of main programs

As of March 31, 2023 (unaudited) and December 31, 2022, the Institution has short- and long-term debt placed with a market value of \$93,708 and \$88,819, respectively, which is made up as follows:

	March 2023 (unaudited)		
	Amount	Average term (days)	Average rate
Long term bank bonds	\$ 2,129	585	9.10%
Short term bank bonds	11,249	235	7.98%
Securitized debt certificates in MXN	39,892	1,248	10.60%
Securitized debt certificates in UDIs	17,626	1,196	4.36%
Securitized debt certificates in USD	-	-	-%
Subordinated and Senior Notes	22,812	639	3.13%
Total	93,708		

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(9) Deposits (continuance)

	December 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 March 31, 2023 (unaudited) and December 31, 2022, the Institution generated an additional liquidity requirement of USD 8,335 million and USD 7,930 million, respectively. As of March 31, 2023 (unaudited) and December 31, 2022, Investment in liquid assets amounted to USD 11,501 million and USD 10,941 million, respectively, resulting in a surplus of USD 3,166 and USD 3,011 million as of said date, respectively.

Bonds in local market

During the first quarter of 2023 (unaudited), BBVA Mexico issued a bond in two tranches in the local market: one tranche was a green bond (ticker: BBVAMX 23V) placed for an approximate term of 4 years, for an amount of \$8,689, with a variable rate TIE overnight funding (funding 1 day) plus 32 bps; the second tranche (ticker: BBVAMX 23) for an amount of \$6,131, was placed for a term of approximately 7 years, with a fixed rate of 9.54%.

Local bonds maturity

During the first quarter of 2023 (unaudited), the maturity of two long-term local bonds (local certificates) was recorded. On January 27, 2023, the issue identified with the ticker symbol BACOMER 20D matured, for an amount of USD 100 million. Subsequently, on February 8, 2023, the BACOMER 20 issuance expired, for an amount of \$7,123.

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(10) Subordinated debt-

As of March 31, 2023 (unaudited) and December 31, 2022, they are analyzed as follows:

	March 2023	December 2022
	(unaudited)	
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.	\$ 3,604	\$ 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.	18,020	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.	13,515	14,633
Unpaid accrued interest	304	741
Issuance expenses	(154)	(162)
Total	\$ 35,289	\$ 38,623

(11) Income tax and employee profit sharing-

The current Income Tax Law provides for an income tax rate of 30%. Main items affecting the Institution taxable income were the annual inflation adjustment, accruals, the market valuation results, the pre-maturity of derivative financial instruments, the differences between the accounting and tax depreciation and amortization and the deductible written-off portfolio and the application of discounts.

A reconciliation as for the three-months period ended March 31, 2023 and 2022 (unaudited) of the statutory income tax rate and the effective rates expressed as a percentage of income before equity in the results of unconsolidated subsidiaries and associates and income tax, which is the tax incurred by the Institution, is as follows:

	March 2023		March 2022	
	Tax	Rate	Tax	Rate
	(unaudited)			
Statutory rate	\$ 9,471	30.00%	\$ 30,934	30.00%
Increase (reduction from):				
Non-deductible expenses	52	0.16%	409	0.40%
Effects of annual inflation	(1,310)	(4.15)%	(7,953)	(7.71)%
Tax payments and provisions agreed with tax authorities during the year, net	423	1.34%	4,397	4.26%
Other accruals	74	0.23%	(935)	(0.91)%
Effective rate	\$ 8,710	27.59%	\$ 26,852	26.04%

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Other tax matters:

As of March 31, 2023 (unaudited) and December 31, 2022, balances are as follows:

	March 2023 (unaudited)	December 2022
Net after-tax profit account	\$ 211,691	\$ 191,844
Capital contributions account	89,059	87,754

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

	March 2023 Temporary Differences Deferred Income		March 2022 Temporary Differences Deferred Income	
	Basis	tax	Basis	tax
	(unaudited)			
<u>Deferred tax assets:</u>				
Allowance for loan losses (not deducted)	\$ 57,445	\$ 17,233	\$ 58,997	\$ 17,699
Fees and interest charged in advance	9,343	2,803	9,512	2,854
Provisions	9,327	2,798	11,429	3,429
Other assets	7,218	2,166	8,632	2,590
Foreclosed assets	3,077	923	3,105	932
Valuation of financial instruments to collect or sell (stockholders' equity)	11,589	3,477	13,196	3,959
Valuation of derivative financial instruments to hedge cash flows (stockholders' equity)	1,978	593	2,047	614
Reserve of pension	2,139	642	2,522	756
Deferred employee profit sharing	20,055	6,016	20,416	6,125
Total, assets	122,172	36,651	129,856	38,958
<u>Deferred tax liabilities:</u>				
Market valuation (results)	6,281	1,884	4,345	1,304
Pre-maturity of derivative financial transactions	(13,337)	(4,001)	(9,357)	(2,807)
Other liabilities	7,014	2,104	7,882	2,365
Total liabilities	(42)	(13)	2,870	862
Net deferred assets	\$ 122,214	\$ 36,664	\$ 126,986	\$ 38,096

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

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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.

(12) Stockholders' Equity-

(a) Structure of capital stock

The Institution's capital stock as of March 31, 2023 (unaudited) and December 31, 2022 is as follows:

	Number of shares at Par Value of MXN 0.28			
	Capital stock	Issued shares	Unsubscribed	Paid-in Capital
Series "F"	\$ 9,107,142,859	\$ (1,370,063,922)	\$ 7,737,078,937	
Series "B"	8,749,999,999	(1,316,335,923)	7,433,664,076	
	\$ 17,857,142,858	\$ (2,686,399,845)	\$ 15,170,743,013	
	Number of shares at Par Value of MXN 0.28			
	Capital stock	Issued shares	Unsubscribed	Paid-in Capital
Series "F"	\$ 2,550	\$ (384)	\$ 2,166	
Series "B"	2,450	(368)	2,082	
Subtotal	\$ 5,000	\$ (752)	4,248	
Reordering of capital adjustments			10,971	
Adjustment to pesos as of December 2007			8,924	
Total			\$ 24,143	

On February 28, 2023, pursuant to an General Ordinary Shareholders' Meeting, the distribution of dividends up to the amount of \$65,000 was authorized, from the "Results from previous years," of which \$16,250 was paid to shareholders on March 13, 2023 at a rate of \$1.07114068085361 per share.

On February 28, 2022, pursuant to an General Ordinary Shareholders' Meeting, the distribution of dividends up to the amount of \$49,344 was authorized, from the "Results from previous years," of which \$19,860, \$9,930 and \$19,554 were paid to shareholders on May 25, September 21 and December 13, 2022 at a rate of \$1.30909870287709, \$0.654549351438546 and \$1.28892829990225 pesos per share, respectively.

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(c) Stockholders' equity restrictions

The Banking Law requires the Institution to set aside 10% of its profits annually to establish capital reserves, up to the amount of paid-in capital stock. As of March 31, 2023 (unaudited) and December 31, 2022, the Institution has reached the required reserve amount with respect to the historical paid-in capital stock. In the event of profits distribution not subject to taxes applicable to the Institution, such tax must be paid upon distribution of the dividend. Therefore, the Institution must consider the profits subject to each rate.

On 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 (ESC, for its acronym in Spanish), 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) Capitalization index

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.

- *Capitalization by operational risk*

From January 2023 capitalization requirement by operational risk is calculated by the new method: Basic Indicator, published on the local regulation in November 2020. The model for the requirement calculation for December 2022 is still the Alternative Standard Method, authorized by the Commission on November 27, 2015 and which considers the weight according to the business lines.

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- *Capitalization by market risk*

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

- *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 March 31, 2023 (unaudited) and December 31, 2022 amounted to 18.38% and 19.19%, respectively which are 4.76% and 5.57% points both respectively 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	March 2023	December 2022
	(unaudited)	
Stockholders' equity, without cumulative effect per conversion	\$ 307,730	\$ 299,954
Deductions of investments in shares	(745)	(748)
Organization expenses and other intangibles	(7,099)	(6,376)
Deferred taxes and fiscal losses	(7,357)	(9,475)
Allowances for loan losses	(371)	-
Total core capital	\$ 292,158	\$ 283,355

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– *Supplementary capital:*

Item	March 2023	December 2022
	(unaudited)	
Obligations and capitalization instruments	\$ 35,139	\$ 38,042
Allowances for loan losses	884	1,783
Total, supplementary capital	\$ 36,023	\$ 39,825
Net capital	\$ 328,181	\$ 323,180

Computable capitalization instruments as of March 31,2023:

Item	Amount	Maturity Date	Calculation Percentage	Weighted Average (Basic Capital)
				(unaudited)
Computable capitalization instruments	3,604	12/11/2029	100%	3,604
Computable capitalization instruments	18,020	18/01/2033	100%	18,020
Computable capitalization instruments	13,515	13/09/2034	100%	13,515
Total	\$ 35,139			\$ 35,139

Computable capitalization instruments as of December 31,2022:

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

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Assets at risk are broken down as follows:

– *Assets subject to market risk:*

	March 31, 2023		December 31, 2022	
	Risk-weighted assets	Capital requirement	Risk-weighted assets	Capital requirement
	(unaudited)			
Transactions in MXN, with nominal rate	\$ 346,979	\$ 27,758	\$ 340,537	\$ 27,243
Transactions in MXN, with a real rate or denominated in UDIs	11,652	932	15,229	1,218
Rate of return with respect to the general minimum wage	3,788	303	3,673	294
Interest rate of transactions in foreign currency with nominal rate	22,590	1,807	21,081	1,686
Positions in UDIs or with return referred to the INPC	117	9	120	10
Transactions with respect to the general minimum wage	291	23	310	25
Currency positions or with return indexed to exchange rate	8,275	662	6,466	517
Positions in shares or with return indexed to the price of a share or group of shares	3,944	316	3,779	302
Spread	7,001	560	6,249	500
Gamma	381	30	1,683	135
Vega	431	34	301	24
Total, market risk	\$ 405,449	\$ 32,434	\$ 399,428	\$ 31,954

Assets subject to credit and operational risk:

	March 31, 2023		December 31, 2022	
	Risk-weighted assets	Capital requirement	Risk-weighted assets	Capital requirement
	(unaudited)			
Weighted at 0%	\$ –	\$ –	\$ –	\$ –
Weighted at 10%	785	63	847	68
Weighted at 11.5%	2,068	165	2,328	186
Weighted at 20%	14,588	1,167	14,332	1,147
Weighted at 23%	77	6	–	–
Weighted at 25%	203	16	196	16
Weighted at 50%	6,041	483	5,583	447
Weighted at 57.5%	1,019	82	581	46
Weighted at 60%	117	9	67	5
Weighted at 65%	15	1	23	2
Weighted at 75%	168,892	13,511	152,224	12,178
Weighted at 85%	17,290	1,383	15,990	1,279
Weighted at 90%	395	32	608	49
Weighted at 100%	234,728	18,778	244,383	19,551
Weighted at 115%	4,776	382	4,670	374
Weighted at 120%	249	20	176	14
Weighted at 150%	317	25	309	25
Weighted at 1250%	127	10	127	10

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Assets subject to credit and operational risk (continuance):

	March 31, 2023		December 31, 2022	
	Risk-weighted assets	Capital requirement	Risk-weighted assets	Capital requirement
	(unaudited)			
Internal Methodology	653,124	52,250	649,572	51,966
C V A (RC06 B)	16,448	1,316	14,029	1,122
E C C (RC 06 C)	21	2	24	2
Derivative counterparty	16,200	1,296	12,167	973
Derivative related	12,369	990	11,235	899
Total credit risk	1,149,849	91,987	1,129,471	90,359
Operational risk	\$ 230,119	\$ 18,410	\$ 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.

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>.

**BBVA México, S.A., Institución de Banca Múltiple,
Grupo Financiero BBVA México y subsidiarias**

(13) Financial margin-

For the three-months periods ended March 31, 2023 and 2022, the main items comprising the financial margin were as follows:

Interest income:

	2023	2022
	(unaudited)	
Interest and returns on loan portfolio (note 7)	\$ 53,028	\$ 37,660
Interest and return on securities (note 5(a), 5(b) and 5(c))	10,295	9,858
Interest on cash and cash equivalents	2,947	904
Interest and premiums on repurchase/resale agreements and securities lending	1,515	524
Interest on margin accounts	61	18
Interest on derivative financial instruments for trading	-	-
Interest on hedging financial instruments	1,380	207
Interest on embedded derivative financial instruments	-	-
Interest on subordinated obligations	-	-
Fee income on loan originations (note 7)	522	408
Other	590	600
Total, interest income	\$ 70,338	\$ 50,179

Interest expense:

	2023	2022
	(unaudited)	
Interest on deposits	(10,737)	(5,561)
Interest on bank and other borrowings	(948)	(554)
Interest on derivative financial instruments for trading	(311)	(248)
Interest on hedging financial instruments	(245)	(122)
Interest on embedded derivative financial instruments	-	-
Interest on subordinated obligations	(726)	(1,174)
Interest and premiums on repurchase/resale agreements and securities lending	(7,199)	(3,635)
Expenses on loan originations	(361)	(401)
Other	(475)	(243)
Total, Interest expense	(21,002)	(11,938)
Financial margin	\$ 49,336	\$ 38,241

Seasonality of operations

The nature of the operations carried out by the Bank corresponds, above all, to the typical activities of credit institutions; reason why they were not affected significantly due to seasonal factors, therefore specific breakdowns are not included in these notes.

**BBVA México, S.A., Institución de Banca Múltiple,
Grupo Financiero BBVA México y subsidiarias**

(14) Commissions and fee received and paid-

For the three-months periods ended March 31, 2023 and 2022, the main items for which the Institution recorded commissions and fee income in the consolidated statement of income were as follows:

	2023		2022
	(unaudited)		
Credit cards and debit cards	\$	10,428	\$ 8,115
Bank fees		2,092	1,906
Investment funds		1,150	1,049
Insurance		766	674
Other		2,239	2,143
Total	\$	16,675	\$ 13,887

For the three-months periods ended March 31, 2023 and 2022, the main items for which the Group recorded commission and fee expense in the consolidated statement of income were as follows:

	2023		2022
	(unaudited)		
Credit cards	\$	(3,973)	\$ (3,278)
Effective credit card reward points		(1,026)	(829)
Promotion fund collateral		(365)	(294)
Cash management and fund transfers		(323)	(290)
Credit placement		(247)	(229)
Appraisals		(84)	(62)
Sale of foreclosed assets		-	-
Purchase sale of securities		(24)	(53)
Other		(977)	(744)
Total	\$	(7,019)	\$ (5,779)

**BBVA México, S.A., Institución de Banca Múltiple,
Grupo Financiero BBVA México y subsidiarias**

(15) Financial intermediation income-

For the three-months periods ended March 31, 2023 and 2022, the main items comprising the financial intermediation income were as follows:

	2023	2022
	(unaudited)	
Valuation result:		
Derivatives	\$ (97)	\$ 3,990
Foreign currency	2,057	(1,087)
Securities investments	959	(708)
Purchase-sale result:		
Derivatives	(1,579)	(1,804)
Foreign currency	1,630	2,175
Securities investments	(451)	(242)
Total	<u>\$ 2,519</u>	<u>\$ 2,324</u>

(16) Information by segment-

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

Below the revenues obtained for the three-months periods ended March 31, 2023 and 2022, which show the different segments as indicated above.

Item	Total	2023			
		Commercial Bank	Corporate and Government Banking	Treasury Transactions	Other Segments
		(unaudited)			
Financial margin	\$ 49,336	\$ 28,264	\$ 14,480	\$ 1,857	\$ 4,735
Allowance for loan losses	(9,197)	(8,989)	(208)	-	-
financial margin adjusted for allowance for loan losses	40,139	19,275	14,272	1,857	4,735
Fee income, net	9,656	4,699	4,338	(68)	687
Intermediation result	2,519	902	365	2,069	(817)
Other operating income	(1,765)	(224)	29	37	(1,607)
Total operating income (expenses)	<u>50,549</u>	<u>\$24,652</u>	<u>\$19,004</u>	<u>\$3,895</u>	<u>\$2,998</u>
Total operating income (expenses)	50,549	\$24,652	\$19,004	\$3,895	\$2,998
Administrative and promotional expenses	<u>(18,979)</u>				
Operating income	31,570				
Equity in income of associates	24				
Income before income tax	31,594				
Income tax	<u>(8,710)</u>				
Income before non-controlling interest	22,884				
Non-controlling interest	-				
Net income	<u>\$22,884</u>				

**BBVA México, S.A., Institución de Banca Múltiple,
Grupo Financiero BBVA México y subsidiarias**

(18) Ratings (unaudited)-

As of March 31, 2023 and December 31, 2022, the ratings assigned to the Institution are as follows:

Rating Agency	Global Scale M. E.		Domestic Scale		Outlook
	Long Term	Short Term	Long Term	Short Term	
Standard & Poor's	BBB	A-2	mxAAA	MxA-1+	Stable
Moody's	Baa1	P-2	AAA.mx	MX-1	Stable
Fitch	BBB	F2	AAA(mex)	F1+(mex)	Stable



BBVA México, S.A.,
Institución de Banca Múltiple, Grupo Financiero BBVA México,
acting directly or through its Texas Agency

U.S.\$10,000,000,000 Medium-Term Note Program

Under this U.S.\$10,000,000,000 Medium-Term Note Program (the “**Program**”) described in this base offering memorandum (this “**Offering Memorandum**”), BBVA México, S.A., Institución de Banca Múltiple, Grupo Financiero BBVA México, a multi-purpose bank incorporated in accordance with the laws of the United Mexican States (the “**Bank**”), acting through its Texas Agency unless the applicable pricing supplement specifies that the Bank is acting directly (the “**Issuer**”), may from time to time issue notes (the “**Notes**”) on a senior or subordinated basis. The Notes will be denominated in any currency agreed upon between the Bank and the relevant Dealer (as defined below).

THE NOTES WILL BE UNSECURED AND WILL NOT BE INSURED OR GUARANTEED BY ANY OF THE BANK’S SUBSIDIARIES OR AFFILIATES, INCLUDING OUR PARENT COMPANY, OR BY THE SAVINGS PROTECTION AGENCY (INSTITUTO PARA LA PROTECCIÓN AL AHORRO BANCARIO, OR THE “IPAB”) OR ANY OTHER MEXICAN GOVERNMENTAL AGENCY, AND THE NOTES ARE NOT CONVERTIBLE, BY THEIR TERMS, INTO ANY OF OUR DEBT SECURITIES, SHARES OR ANY OF OUR EQUITY CAPITAL OR ANY DEBT SECURITIES, SHARES OR EQUITY CAPITAL OF ANY OF OUR SUBSIDIARIES OR AFFILIATES.

An investment in Notes issued under the Program involves certain risks. For a discussion of these risks, see “Risk Factors” beginning on page 14.

This Offering Memorandum does not comprise a prospectus for the purposes of Regulation (EU) 2017/1129 (the “**Prospectus Regulation**”). This Offering Memorandum has not been reviewed or approved by any regulator which is a competent authority under the Prospectus Regulation. Application has been made to the Irish Stock Exchange plc trading as Euronext Dublin (“**Euronext Dublin**”) for the approval of this document as base listing particulars and for Notes issued under the Program to be admitted to the Official List and trading on Euronext Dublin (the “**Global Exchange Market**”) for a period of twelve months from the date of this base listing particulars. The Global Exchange Market is not a regulated market for the purposes of Directive 2014/65/EU (as amended, “**MiFID II**”). There is no assurance that any series of Notes will be listed and admitted to trading on the Global Exchange Market. The Notes may also be listed and traded on other non-EU regulated markets or not be listed at all.

We have not registered, and will not register, the Notes under the United States Securities Act of 1933, as amended (the “Securities Act”), or any securities laws of Mexico or any state or any other jurisdiction. The Notes may not be offered or sold within the United States or to U.S. persons, except to persons reasonably believed to be qualified institutional buyers (“QIBs”) in reliance on the exemption from registration provided by Rule 144A (“Rule 144A”) under the Securities Act and to certain non-U.S. persons in offshore transactions in reliance on Regulation S (“Regulation S”) under the Securities Act. You are hereby notified that sellers of the Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A or any state securities laws. See “Plan of Distribution” and “Transfer Restrictions.”

Neither the Mexican National Banking and Securities Commission (Comisión Nacional Bancaria y de Valores, or the “CNBV”) nor the U.S. Securities and Exchange Commission (the “SEC”), nor any state or foreign securities commission or regulatory authority, has approved or disapproved of the Notes nor have any of the foregoing authorities passed upon or endorsed the merits of an offering of the Notes or the accuracy, adequacy or completeness of this Offering Memorandum. Any representation to the contrary is a criminal offense.

Arranger

BNP PARIBAS

Dealers

BBVA

Citigroup

Deutsche Bank

HSBC

MUFG

Standard Chartered Bank

Wells Fargo Securities

BNP PARIBAS

Credit Agricole CIB

Deutsche Bank Securities

J.P. Morgan

Nomura

UBS Investment Bank

Barclays
BofA Securities
Credit Suisse
Goldman Sachs & Co. LLC
Morgan Stanley
SMBC Nikko

The date of this Offering Memorandum is April 28, 2023.

This Offering Memorandum should be read and understood in conjunction with any supplement hereto. Full information on the Issuer and any Notes issued under the Program is available on the basis of the combination of this Offering Memorandum (including any supplement and any document incorporated by reference herein) and the relevant Pricing Supplement.

We, in our capacity as issuer, accept responsibility for the information contained in this Offering Memorandum. We, having taken all reasonable care to ensure that such is the case, confirm that the information contained in this Offering Memorandum is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import.

THE NOTES HAVE NOT BEEN AND WILL NOT BE REGISTERED WITH THE MEXICAN NATIONAL SECURITIES REGISTRY (*REGISTRO NACIONAL DE VALORES*, OR “RNV”), MAINTAINED BY THE CNBV AND, THEREFORE, MAY NOT BE OFFERED OR SOLD PUBLICLY IN MEXICO; THE NOTES MAY BE OFFERED OR SOLD IN MEXICO, ON A PRIVATE PLACEMENT BASIS, TO INVESTORS THAT QUALIFY AS INSTITUTIONAL OR QUALIFIED INVESTORS, SOLELY PURSUANT TO THE PRIVATE PLACEMENT EXEMPTION SET FORTH IN ARTICLE 8 OF THE MEXICAN SECURITIES MARKET LAW (*LEY DEL MERCADO DE VALORES*) AND REGULATIONS THEREUNDER. WE WILL NOTIFY AND FILE CERTAIN DOCUMENTATION WITH THE CNBV IN RESPECT OF THE TERMS AND CONDITIONS OF THE OFFERING OF THE NOTES OUTSIDE OF MEXICO. SUCH NOTICE WILL BE SUBMITTED TO THE CNBV FOR STATISTICAL AND INFORMATIONAL PURPOSES, TO COMPLY WITH ARTICLE 7, SECOND PARAGRAPH, OF THE MEXICAN SECURITIES MARKET LAW AND REGULATIONS THEREUNDER. THE DELIVERY OF SUCH NOTICE TO, AND RECEIPT BY, THE CNBV IS NOT A REQUIREMENT FOR THE VALIDITY OF THE NOTES, AND DOES NOT CONSTITUTE OR IMPLY ANY CERTIFICATION AS TO THE INVESTMENT QUALITY OF THE NOTES, OUR SOLVENCY, LIQUIDITY OR CREDIT QUALITY OR THE ACCURACY OR COMPLETENESS OF THE INFORMATION SET FORTH IN THIS OFFERING MEMORANDUM. THIS OFFERING MEMORANDUM IS SOLELY OUR RESPONSIBILITY AND HAS NOT BEEN REVIEWED OR AUTHORIZED BY THE CNBV, AND MAY NOT BE PUBLICLY DISTRIBUTED IN MEXICO.

No person is or has been authorized to give any information or to make any representations, other than that which is contained in or consistent with this Offering Memorandum, and we take no responsibility for any other information or representations that you may receive from others. Neither the delivery of this Offering Memorandum nor any sale made hereunder shall, under any circumstances, create any implication that the information herein is correct as of any time subsequent to the date hereof or that any other information supplied in connection with the Program is correct as of any time subsequent to the date indicated in the document containing the same. The Dealers expressly do not undertake to review the financial condition or affairs of the Bank during the life of the Program or to advise any investor in the Notes of any information that comes to their attention. Neither this Offering Memorandum nor any other information supplied in connection with the Program or any Notes (i) is intended to provide the basis of any credit or other evaluation or (ii) should be considered as a recommendation by the Bank or any of the Dealers that any recipient of this Offering Memorandum or any recipient of any other information supplied in connection with the Program or any Notes should purchase any Notes. Each investor contemplating purchasing any Notes should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Bank. In the absence of a relevant Pricing Supplement, neither this Offering Memorandum nor any other information supplied in connection with the Program or the issue of any Notes constitutes an offer or invitation by or on behalf of the Bank or any of the Dealers to subscribe for or to purchase any Notes.

Neither this Offering Memorandum nor any Pricing Supplement constitutes an offer to sell or the solicitation of an offer to buy any Notes in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Offering Memorandum and the offer or sale of the Notes may be restricted by law in certain jurisdictions. The Bank and the Dealers do not represent that this Offering Memorandum may be lawfully distributed, or that any Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering.

In particular, no action has, to date, been taken by the Bank or the Dealers that would permit a public offering of any Notes or distribution of this Offering Memorandum in any jurisdiction where action for that purpose is required. Accordingly, no Notes may be offered or sold, directly or indirectly, and neither this Offering Memorandum nor any

advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with all applicable laws and regulations. Persons into whose possession this Offering Memorandum or any Notes may come must inform themselves about, and observe, any such restrictions on the distribution of this Offering Memorandum and the offering and sale of Notes. There are restrictions on the distribution of this Offering Memorandum and the offer or sale of Notes in the United States, Mexico, Canada, Japan, Hong Kong, Singapore, the European Economic Area and the United Kingdom, among others. See “Plan of Distribution” and “Transfer Restrictions.” In particular, the Notes have not been and will not be registered under the United States Securities Act of 1933, as amended (the “**Securities Act**”), and may not be offered or sold in the United States or to, or for the account or benefit of, U.S. persons, unless the Notes are registered under the Securities Act or an exemption from the registration requirements of the Securities Act is available.

YOU SHOULD BE AWARE THAT YOU MAY BE REQUIRED TO BEAR THE FINANCIAL RISKS OF THIS INVESTMENT FOR AN INDEFINITE PERIOD OF TIME. SEE “RISK FACTORS” IN THIS OFFERING MEMORANDUM AND ANY SUPPLEMENT HERETO FOR A DESCRIPTION OF SPECIFIED FACTORS RELATING TO AN INVESTMENT IN THE NOTES. NEITHER WE, THE DEALERS, NOR ANY OF OUR OR THEIR RESPECTIVE REPRESENTATIVES IS MAKING ANY REPRESENTATION TO YOU REGARDING THE LEGALITY OF AN INVESTMENT BY YOU UNDER APPROPRIATE LEGAL INVESTMENT OR SIMILAR LAWS. YOU SHOULD CONSULT WITH YOUR OWN ADVISORS AS TO LEGAL, TAX, BUSINESS, FINANCIAL AND RELATED ASPECTS OF A PURCHASE OF THE NOTES.

The Notes issued under the Program have not been, and will not be, approved or disapproved by the CNBV, the SEC or any other securities commission or other regulatory authority in the United States, nor have the foregoing authorities approved this Offering Memorandum or confirmed the accuracy or the adequacy of the information contained in this Offering Memorandum. Any representation to the contrary is a criminal offense.

The Notes are not deposits with us and are not insured by the United States Federal Deposit Insurance Corporation or any other United States governmental agency or any Mexican governmental agency, including, without limitation, the IPAB, and are not guaranteed or secured, in any manner, by any entity that is part of the GFBM Group (including its holding company).

A series of Notes issued under the Program may be rated or unrated. Where a series of Notes is rated, such rating will not necessarily be the same as the rating assigned to the Program. A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, change or withdrawal at any time by the assigning rating agency. A suspension, reduction or withdrawal of the rating assigned to the Bank may adversely affect the market price of the Notes issued under the Program. The rating of certain series of Notes to be issued under the Program may be specified in the applicable Pricing Supplement. Whether or not each credit rating applied for in relation to a relevant series of Notes will be issued by a credit rating agency established in the European Union or the United Kingdom (the “**UK**”) and registered under Regulation (EC) No. 1060/2009/EC, as amended (the “**CRA Regulation**”), will be disclosed in the Pricing Supplement. In general, and subject to and in accordance with the provisions of the CRA Regulation, European regulated investors are restricted from using a credit rating for regulatory purposes if such credit rating is not issued by a credit rating agency established in the European Union or the UK and registered under the CRA Regulation.

In making an investment decision, investors must rely on their own examination of the Bank and its subsidiaries and the terms of the Notes being offered, including the merits and risks involved.

NOTICES TO INVESTORS

NOTICE TO RELATED PARTIES OF THE ISSUER

PURSUANT TO BULLETIN 3/2012 ISSUED BY *BANCO DE MÉXICO*, AS AMENDED FROM TIME TO TIME, INCLUDING THE AMENDMENT THROUGH BULLETIN 16/2018, NO RELATED PARTY OF THE ISSUER, AS DEFINED IN ARTICLE 73 OF THE MEXICAN BANKING LAW (*LEY DE INSTITUCIONES DE CRÉDITO*), MAY ACQUIRE, DIRECTLY OR INDIRECTLY, ANY SUBORDINATED NOTES TO BE ISSUED UNDER THE PROGRAM.

Notice to Persons in the United States

The offer and sale of Notes has not been, and is not required to be, registered with the SEC. The Notes will be offered and sold in the United States solely to persons reasonably believed to be “qualified institutional buyers” under Rule 144A of the Securities Act, and in offshore transactions to persons other than U.S. persons, in reliance on Regulation S under the Securities Act. Following any such offering, the Notes may be sold:

- to persons reasonably believed to be “qualified institutional buyers” under Rule 144A;
- to non-U.S. persons outside the United States in reliance on Regulation S under the Securities Act; or
- under other exemptions from, or in transactions not subject to, the registration requirements of the Securities Act, as described under “Transfer Restrictions.”

Accordingly, each purchaser, in making its purchase, will be deemed to have represented to, and agreed with, the Bank that it is:

- a “qualified institutional buyer” under Rule 144A; or
- a non-U.S. person purchasing the Notes in an offshore transaction, to the extent such offering is made in accordance with Regulation S under the Securities Act.

Notice to Persons in the United Kingdom

In the UK, this Offering Memorandum is being distributed only to, and is directed only at, qualified investors (as defined in the Prospectus Regulation as it forms part of UK domestic law by virtue of the European Union (Withdrawal) Act 2018 (the “EUWA”) who are (i) persons having professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended, the “Order”), or (ii) high net worth entities and other persons to whom it may be lawfully be communicated falling within Article 49(2)(a) to (d) of the Order (all such persons together being referred to as “**relevant persons**”). Unless otherwise specified in the applicable Pricing Supplement, the Notes are only available to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire the Notes in the UK will be engaged in only with, relevant persons. Any person in the UK who is not a relevant person should not act or rely on this Offering Memorandum or any of its contents.

Prohibition on Sales to UK Retail Investors

Unless the applicable Pricing Supplement in respect of any Notes indicates “Prohibition of Sales to UK Retail Investors” as “Not Applicable,” any Notes offered hereunder are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the UK. For these purposes, a retail investor means a person who is one (or more) of the following: (i) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of UK domestic law by virtue of the EUWA; or (ii) a customer within the meaning of the provisions of the Financial Services and Markets Act 2000 (as amended, the “FSMA”) and any rules or regulations made under the FSMA to implement the Directive (EU) 2016/97 (the “**Insurance Distribution Directive**”), where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of UK domestic law by virtue of the EUWA; or (iii) not a qualified investor as defined in Article 2 of the Prospectus Regulation as it forms part of UK domestic law by virtue of the EUWA. Consequently, no key information document required by Regulation (EU) No 1286/2014 as it forms part of UK domestic law by virtue of the EUWA (the “**UK PRIIPs Regulation**”) for offering or selling the Notes or otherwise making them available to retail investors in the UK has been prepared and therefore offering

or selling the Notes or otherwise making them available to any retail investor in the UK may be unlawful under the UK PRIIPs Regulation.

UK MiFIR Product Governance / Target Market

The Pricing Supplement in respect of any Notes may include a legend entitled “UK MiFIR Product Governance” which will outline the target market assessment in respect of such Notes and which channels for distribution of such Notes are appropriate. Any person subsequently offering, selling or recommending the Notes in the UK (a “**distributor**”) should take into consideration the target market assessment; however, a distributor subject to the FCA Handbook Product Intervention and Product Governance Sourcebook (the “**UK MiFIR Product Governance Rules**”) is responsible for undertaking its own target market assessment in respect of such Notes (by either adopting or refining the target market assessment) and determining appropriate distribution channels.

A determination will be made in relation to each issue of the Notes about whether, for the UK MiFIR Product Governance Rules, any Dealer subscribing for any Notes is a manufacturer in respect of such Notes, but otherwise neither the Arranger nor the Dealers nor any of their respective affiliates will be a manufacturer for the purpose of the UK MiFIR Product Governance Rules.

Prohibition on Sales to EEA Retail Investors

Unless the applicable Pricing Supplement in respect of any Notes indicates “Prohibition of Sales to EEA Retail Investors” as “Not Applicable,” any Notes offered hereunder are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (“**EEA**”). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of MiFID II; (ii) a customer within the meaning of Insurance Distribution Directive, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in the Prospectus Regulation. Consequently, no key information document required by Regulation (EU) No 1286/2014 (as amended, the “**PRIIPs Regulation**”) for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

MiFID II Product Governance / Target Market

The Pricing Supplement in respect of any Notes may include a legend entitled “MiFID II Product Governance” which will outline the target market assessment in respect of the Notes and which channels for distribution of the Notes are appropriate. Any person subsequently offering, selling or recommending the Notes (a “**distributor**”) should take into consideration the target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the target market assessment) and determining appropriate distribution channels.

A determination will be made in relation to each issue of the Notes about whether, for the purpose of the MiFID Product Governance rules under EU Delegated Directive 2017/593 (the “**MiFID Product Governance Rules**”), any Dealer subscribing for any Notes is a manufacturer in respect of such Notes, but otherwise neither the Arranger nor the Dealers nor any of their respective affiliates will be a manufacturer for the purpose of the MiFID Product Governance Rules.

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AS REQUIRED UNDER APPLICABLE MEXICAN LAW, *BANCO DE MÉXICO*, THE MEXICAN CENTRAL BANK, MUST AUTHORIZE EACH ISSUANCE OF SUBORDINATED NOTES. FURTHERMORE, EACH INDENTURE FOR THE ISSUANCE OF SUBORDINATED NOTES WILL BE REQUIRED TO BE EXECUTED AND ACKNOWLEDGED BY AN AUTHORIZED OFFICIAL OF THE CNBV. AUTHORIZATION OF ANY ISSUANCE OF THE SUBORDINATED NOTES BY *BANCO DE MÉXICO* DOES NOT ADDRESS THE LEGAL, TAX OR OTHER CONSEQUENCES TO THE HOLDERS OF THE SUBORDINATED NOTES, NOR DOES IT IMPLY ANY CERTIFICATION AS TO THE INVESTMENT QUALITY OF THE SUBORDINATED NOTES OR AS TO THE BANK’S SOLVENCY, LIQUIDITY OR CREDIT QUALITY, OR THE ACCURACY OR COMPLETENESS OF THE INFORMATION SET FORTH HEREIN OR IN ANY AMENDMENT OR SUPPLEMENT HERETO, OR THE TRANSLATION OF THE TERMS OF APPLICABLE MEXICAN LAW AND REGULATION, INCLUDING ARTICLES 121 AND 122 OF THE MEXICAN BANKING LAW (*LEY DE INSTITUCIONES DE CRÉDITO*), RELEVANT PROVISIONS OF BULLETIN 3/2012 ISSUED BY *BANCO DE MÉXICO* AND THE GENERAL RULES APPLICABLE TO MEXICAN BANKS (*DISPOSICIONES DE CARÁCTER GENERAL APLICABLES A LAS INSTITUCIONES DE CRÉDITO*) ISSUED BY THE CNBV.

Unless otherwise indicated or the context otherwise requires, references to:

- the “**Bank**,” “**we**,” “**us**,” “**our**” and “**ourselves**” are to BBVA México, S.A., Institución de Banca Múltiple, Grupo Financiero BBVA México, a multi-purpose bank incorporated in accordance with the laws of the United Mexican States, and its consolidated subsidiaries;
- “**GFBM**” is to Grupo Financiero BBVA México, S.A. de C.V., a Mexican financial services holding company;
- the “**GFBM Group**” are to GFBM, and its subsidiaries, including us;
- “**BBVA Spain**” are to our indirect parent, Banco Bilbao Vizcaya Argentaria, S.A.;
- the “**BBVA Group**” are to BBVA Spain and its subsidiaries;
- the “**Issuer**” are to the Bank, acting through its Texas Agency unless otherwise specified in the applicable Pricing Supplement;
- the “**Texas Agency**” are to the Texas Agency of BBVA México, S.A., Institución de Banca Múltiple, Grupo Financiero BBVA México;
- “**Dealers**” are to Banco Bilbao Vizcaya Argentaria, SA, Barclays Capital Inc., Barclays Bank PLC, BBVA Securities Inc., BNP Paribas, BNP Paribas Securities Corp., BofA Securities, Inc., Citigroup Global Markets Inc., Crédit Agricole Corporate and Investment Bank, Credit Suisse Securities (USA) LLC, Deutsche Bank AG, London Branch, Deutsche Bank Securities Inc., Goldman Sachs & Co. LLC, HSBC Securities (USA) Inc., J.P. Morgan Securities LLC, Morgan Stanley & Co. LLC, MUFG Securities Americas Inc., Nomura Securities International, Inc., SMBC Nikko Securities America, Inc., Standard Chartered Bank, UBS AG London Branch, UBS Securities LLC and Wells Fargo Securities, LLC, and any other Dealer appointed from time to time in accordance with the Dealer Agreement;
- “**relevant Dealer**” are, in the case of an issue of Notes being (or intended to be) subscribed by more than one Dealer, to all Dealers agreeing to purchase such Notes; and
- “**Mexico**” is to the United Mexican States.

AVAILABLE INFORMATION

We file annual and quarterly reports and other information, all of which are in the Spanish language, with the Bolsa Mexicana de Valores, S.A.B. de C.V. (the “**BMV**”) and the Bolsa Institucional de Valores, S.A. de C.V. (the “**BIVA**”) in accordance with the requirements applicable to issuers of securities registered with the RNV maintained by the CNBV. Our BMV and/or BIVA filings are available to the public on the Internet at our website, www.bbva.mx, at the BMV’s website, www.bmv.com.mx, and at the BIVA’s website, www.biva.mx. The address of our website is included in this Offering Memorandum as active textual references only. The information on our website is not a part of, and is not incorporated by reference into, this Offering Memorandum or any supplement thereto.

To permit compliance with Rule 144A under the Securities Act in connection with resales of Notes in reliance on Rule 144A, we will be required under the indenture relating to such Notes, upon the request of a holder of Rule 144A notes or Regulation S notes (during the restricted period, as defined in the legend included under “**Notices to Investors**”), to furnish to such holder and any prospective purchaser designated by such holder the information required to be delivered under Rule 144A(d)(4) under the Securities Act if at the time of the request we are neither a reporting company under Section 13 or Section 15(d) of the U.S. Securities Exchange Act of 1934, as amended (the “**Exchange Act**”), nor exempt from reporting pursuant to Rule 12g3-2(b) under the Exchange Act.

Application has been made to Euronext Dublin for the approval of this document as listing particulars. This Offering Memorandum forms, in all material respects, the listing particulars for admission to Euronext Dublin. We will be required to comply with any undertakings given by us from time to time to Euronext Dublin in connection with the Notes issued under the Program, and to furnish to it all such information as the rules of Euronext Dublin may require in connection with the listing of the Notes.

SERVICE OF PROCESS AND ENFORCEMENT OF CIVIL LIABILITIES

We are a multi-purpose bank (*institución de banca múltiple*) incorporated in accordance with the laws of Mexico with limited liability (*sociedad anónima*). Most of the members of our board of directors (the “**Board of Directors**”), executive officers and controlling persons named herein are non-residents of the United States and substantially all of the assets of such non-resident persons and substantially all of our assets are located in Mexico or elsewhere outside the United States. As a result, it may not be possible for investors to effect service of process within the United States upon such persons or us or to enforce against them or us in courts of any jurisdiction outside Mexico, judgments predicated upon the laws of any such jurisdiction, including any judgment predicated substantially upon the civil liability provisions of United States federal and state securities laws.

No treaty exists between the United States and Mexico for the reciprocal enforcement of foreign judgments. Generally, Mexican courts would enforce final judgments rendered in the United States if certain requirements were met, including the review in Mexico of the U.S. judgment to ascertain compliance with certain basic principles of due process and the non-violation of Mexican law or public policy; *provided* that U.S. courts would grant reciprocal treatment to Mexican judgments. Additionally, there is uncertainty as to the enforceability, in original actions in Mexican courts of liabilities predicated, in whole or in part, on U.S. federal securities laws and as to the enforceability in Mexican courts of judgments of U.S. courts obtained in actions predicated on the civil liability provisions of U.S. federal securities laws. See “Risk Factors.”

If proceedings are brought in Mexico seeking to enforce our obligations in respect of the Notes, we would not be required to discharge such obligations in a currency other than the peso. Pursuant to Mexican law, an obligation in a currency other than the peso, which is payable in Mexico, as a result of the enforcement of a judgment or an initial claim, may be satisfied in Mexican currency at the rate of exchange in effect on the date on which payment is made. Such rate of exchange is currently determined by *Banco de México* (the Mexican Central Bank) each business day in Mexico and published the following banking-business day in the Mexican Federal Official Gazette (*Diario Oficial de la Federación*, or the “**Federal Official Gazette**”).

We have been advised by Texas counsel that a money judgment rendered in Mexico for amounts due under any indenture governing the Notes issued under the Program or such Notes (other than a judgment for taxes, fines or other penalties) that has become final, conclusive and enforceable under the judicial system of Mexico would generally be recognized and enforceable against the Issuer in a Texas court if such judgment meets the requirements of the Uniform Foreign-Country Money Judgment Recognition Act as then in effect in the State of Texas and the judgment creditor complies with the applicable procedures for recognition. However, a Texas court is not permitted to recognize a foreign money judgment against the Texas Agency (as Issuer) (a) that was rendered under a judicial system that does not provide impartial tribunal or procedures compatible with due process of law, (b) if the Mexican court did not have

personal jurisdiction over the Texas Agency (as issuer), or (c) if the Mexican court did not have jurisdiction over the subject matter. Moreover, a Texas court may decide not to recognize a foreign money judgment against the Texas Agency (as Issuer) if (a) the Issuer did not receive notice of the Mexican court proceeding in sufficient time to enable an adequate defense, (b) the judgment was obtained by fraud that deprived the Issuer of an adequate opportunity to present its case, (c) the cause of action or defense in such judgment is repugnant to the public policy of Texas or the United States, (d) the judgment conflicts with another final and conclusive judgment, (e) the proceeding in the Mexican court was contrary to an agreement between the parties under which the dispute was to be determined otherwise than by proceedings in Mexican courts, (f) personal jurisdiction was based only on personal service and the Mexican court was a seriously inconvenient forum for the trial of the case, (g) the judgment was rendered in circumstances that raise substantial doubt about the integrity of the Mexican court with respect to the judgment, (h) the specific proceeding in the Mexican court leading to the judgment was not compatible with due process of law or (i) Mexican courts would not recognize a comparable money judgment rendered by a Texas court simply because the judgment was rendered by a Texas court. A Texas court would ordinarily only render or enforce a judgment for money relating to the indenture governing the Notes issued under the Program or such Notes in U.S. dollars.

The Bank has appointed CT Corporation System, with offices located at 28 Liberty St., New York, New York 10005, as its authorized agent upon which process may be served in any action which may be instituted in any United States federal or state court having subject matter jurisdiction in the Borough of Manhattan, The City of New York, New York arising out of or based upon the Notes issued under the Program or any indenture governing such Notes. See “Description of the Notes.”

FORWARD-LOOKING STATEMENTS

Certain statements contained in this Offering Memorandum relating to our plans, forecasts and expectations regarding future events, strategies and projections are estimates. Examples of such forward-looking statements include, but are not limited to: (i) statements regarding our results of operations and financial position, (ii) statements of plans, objectives or goals, including those related to our operations, and (iii) statements of assumptions underlying such statements. Words such as “may,” “might,” “will,” “would,” “shall,” “should,” “consider,” “can,” “could,” “believe,” “anticipate,” “continue,” “expect,” “estimate,” “plan,” “intend,” “assume,” “foresee,” “seeks,” “predict,” “project,” “potential,” or the negative of these terms, and other similar terms are used in this Offering Memorandum to identify such forward-looking statements. Forward-looking statements included in this Offering Memorandum are based on our current expectations and projections related to future events and trends that affect or would affect our business.

Forward-looking statements include risks, uncertainties and assumptions, since these refer to future events and, therefore, do not represent any guarantee of future results. Therefore, our financial condition, results of operations, strategies, competitive position and market environment may significantly differ from our estimates as a result of a number of factors, including, but not limited to:

- changes in economic, political, social and other conditions in Mexico and elsewhere;
- material adverse effects as a result of geopolitical and/or military conflicts, such as the current conflict in Ukraine, and other developments and other global uncertainties;
- changes in exchange rates, market interest rates or inflation rates;
- financing plans and limitations on our access to sources of financing on competitive terms;
- changes in general economic, business, social, political, public health or other conditions in Mexico, the United States or elsewhere;
- changes in public sector lending in Mexico;
- the ability or willingness of our customers to meet their payment obligations;
- the monetary, foreign exchange, liquidity and interest rate policies of *Banco de México*;
- disruptions in the financial services industry globally or in Mexico;
- possible disruptions to commercial activities due to natural and man-made disasters, including health epidemics, including pandemics such as the COVID-19 pandemic, weather events, terrorist activities and armed conflicts;

- material changes to, or withdrawals from, or renegotiations of free trade agreements to which Mexico is a party, including the United States—Mexico—Canada Agreement (“USMCA”), to which Mexico is a party and that has replaced the North American Free Trade Agreement (“NAFTA”);
- competition in the banking and financial services industry in Mexico;
- profitability of our businesses;
- credit and other risks of lending, such as increases in default of borrowers, and changes required to loan loss reserves and amounts;
- changes and risks faced by other financial institutions;
- limitations on our access to sources of financing on competitive terms;
- failure to meet capital or other requirements;
- additional capital requirements relating to our classification as a systemically important local bank and to countercyclical risks;
- limitations on our ability to freely determine interest rates;
- changes in reserve or capital requirements, changes in the laws or regulations applicable thereto, or the interpretation of how such reserve or capital requirements are to be calculated;
- our inability to hedge against market risks, including but not limited, to interest rate and exchange rate movements;
- changes in requirements to make contributions to or for the receipt of support from programs organized by the Mexican government;
- inability to timely and duly enforce our claims on collateral provided by borrowers;
- changes in our or Mexico’s domestic and international credit ratings;
- changes in regulations relating to the products we offer or otherwise;
- changes in capital markets in general that may affect policies or attitudes towards investing in Mexico or securities issued by companies in Mexico;
- any failure or weakness in our operating controls or procedures or our risk management policies;
- changes in consumer spending and saving habits;
- a deterioration of labor relations with our employees and changes in the laws or regulations applicable thereto that would result in additional costs relating to employee benefits;
- our ability to implement new technologies and to safeguard against cyber-attacks and other breaches of our information technology systems;
- interruptions or failures in our technology systems;
- actions taken by the Mexican Antitrust Commission (*Comisión Federal de Competencia Económica*, or “COFECE”) or the Ministry of Finance and Public Credit (*Secretaría de Hacienda y Crédito Público*, or the “SHCP”) with respect to our business and the Mexican banking industry generally;
- any adverse administrative or legal proceedings against us;
- organized criminal activities and other geopolitical events;
- any failure to detect money laundering or other illegal or improper activities;
- cyber-attacks and their impact on our reputation, operations and results;
- the impact of acquisitions and divestitures;
- restrictions on foreign currency convertibility and remittance outside of Mexico;

- actions and/or sanctions resulting from our failure to maintain required Capital Ratios;
- the impact of transactions with our parent GFBM and its subsidiaries or affiliates;
- the effect of changes in accounting principles, new legislation, intervention by regulatory authorities, government directives or monetary or fiscal policy in Mexico; and
- the other factors discussed under “Risk Factors” in this Offering Memorandum.

Therefore, our actual performance may be adversely affected and may significantly differ from the expectations set forth in these forward-looking statements, which do not represent a guarantee of our future performance. Accordingly, you should not place undue reliance on the estimates and forward-looking statements included in this Offering Memorandum to make an investment decision.

Additional factors affecting our business may arise periodically and we cannot predict such factors, nor can we assess the impact of all these factors on our business or the extent to which such factors or combination of factors could cause our results to materially differ from those contained in any forward-looking statement. Although we consider the plans, intentions, expectations and estimates reflected in, or suggested by, forward-looking statements included in this Offering Memorandum to be reasonable, we cannot provide any assurance that our plans, intentions, expectations and estimates will be achieved. Additionally, historical trends in our statements should not be interpreted as a guarantee that these trends will continue in the future.

Forward-looking statements included herein are made only as of the date of this Offering Memorandum. Except as required by law, we do not undertake any obligation to update any forward-looking statements to reflect events or circumstances after the date hereof or to reflect the occurrence of anticipated or unanticipated events or circumstances.

PRESENTATION OF CERTAIN FINANCIAL AND OTHER INFORMATION

Accounting Principles

Our audited consolidated financial statements as of December 31, 2022 and for the year then ended (our “**2022 Financial Statements**”) and our audited consolidated financial statements as of December 31, 2021 and 2020 and for the years then ended (our “**2021 Financial Statements**” and, together with our 2022 Financial Statements, our “**Audited Financial Statements**”) contained in this Offering Memorandum have been prepared in accordance with the accounting principles and regulations prescribed by the CNBV for banks, as amended (“**Mexican Banking GAAP**”). Our 2022 Financial Statements are not comparable with our 2021 Financial Statements, as explained below.

Mexican Banking GAAP differs in certain respects from Mexican Financial Reporting Standards, as published by the Mexican Board for the Research and Development of Financial Reporting Standards (*Consejo Mexicano para la Investigación y Desarrollo de Normas de Información Financiera*). Mexican Banking GAAP also differs in certain respects from generally accepted accounting principles in the United States of America (“**U.S. GAAP**”), and the guidelines of the SEC applicable to banking institutions in the United States and from International Financial Reporting Standards (“**IFRS**”). See “Annex A—Summary of Significant Differences Between Mexican Banking GAAP and U.S. GAAP” and “Annex B—Summary of Significant Differences Between Mexican Banking GAAP and IFRS.” No reconciliation of our Audited Financial Statements to U.S. GAAP or IFRS has been prepared for the purposes of this Offering Memorandum. Any such reconciliation would likely result in material differences. See “Risk Factors—Risks Relating to Our Business—Our Audited Financial Statements included elsewhere in this Offering Memorandum have been prepared and are presented in accordance with Mexican Banking GAAP, which is significantly different from U.S. GAAP and IFRS.”

Pursuant to publications in the Federal Official Gazette dated December 4, 2020 and December 30, 2021, the CNBV announced the obligation, effective January 1, 2022, for Mexican banks and other financial institutions in Mexico to adopt new accounting standards. In addition, pursuant to the transitory articles of the General Rules Applicable to Mexican Banks, and as a practical solution, Mexican banks may recognize as of the date of initial application, which is January 1, 2022, the cumulative effect of the accounting changes and shall not present retrospectively the effects of such accounting changes in financial statements for prior periods. See Notes 2(a), 3 and 3(d) to our 2022 Financial Statements included elsewhere in this Offering Memorandum for additional details about the new accounting criteria that we use in the classification and measurement of financial assets and liabilities pursuant to the new accounting standards. As a result, financial information as of December 31, 2022 and for the year then ended presented in this Offering Memorandum is not comparable with financial information as of December 31, 2021 or 2020 or for the years then ended or for any prior historical financial period. See “Risk Factors—Risks Relating to Our Business—As a result of the implementation of new accounting criteria for credit institutions in Mexico established by the CNBV, financial information as of and for the year ended December 31, 2022 is not comparable with financial information for prior years.”

Unless otherwise specified, in accordance with Mexican Banking GAAP, our Audited Financial Statements and the other financial information with respect to us contained in this Offering Memorandum are presented in consolidated form. We consolidate entities (including special-purpose entities, such as securitized transaction trusts) over which we exercise control. Our investments in affiliates are accounted for under the equity method. See Notes 3 and 18 to our Audited Financial Statements included elsewhere in this Offering Memorandum.

Our financial information should be read together with our Audited Financial Statements, the corresponding notes thereto, and the applicable reports of the independent auditors, each of which are included in this Offering Memorandum.

Currencies

In this Offering Memorandum, references to “**pesos**” and “**Ps.**” are to Mexican pesos, and references to “**U.S. dollars**” and “**U.S.\$**” are to United States dollars.

This Offering Memorandum contains translations of peso amounts into U.S. dollars at specified rates solely for your convenience. You should not construe these translations as representations by us that the peso amounts actually represent such U.S. dollar amounts or could be converted into U.S. dollars at the rates indicated. Unless otherwise indicated, we have translated peso amounts into U.S. dollars at the exchange rate of Ps.19.5089 to U.S.\$1.00, which was the rate on December 31, 2022, as published by *Banco de México* in the Federal Official Gazette on

January 2, 2023. On April 26, 2023, the rate published by *Banco de México* in the Federal Official Gazette was Ps.18.0892 to U.S.\$1.00.

Terms Relating to Our Loan Portfolio

As used in this Offering Memorandum, the following terms relating to our loan portfolio and other credit assets have the meanings set forth below, unless otherwise indicated.

“**Total current loans**” and “**total current loan portfolio**” refer to the aggregate of (1) the total principal amount of loans outstanding as of the date presented, (2) amounts attributable to “accrued interest, but unpaid,” and (3) “rediscounted loans”. Under Mexican Banking GAAP, we include as income for any reporting period interest accrued but unpaid on current loans during that period. Such “accrued interest” is reported as part of our total current loan portfolio in our financial statements until it is paid or becomes part of the total past due loan portfolio in accordance with the CNBV’s rules.

“**Rediscounted loans**” are peso- and U.S. dollar-denominated loans made to finance projects in industries that qualify for priority status under the wholesale lending programs of the Mexican government’s development banks and are generally funded in part by such development banks. In accordance with Mexican Banking GAAP, rediscounted loans are recorded on the balance sheet as outstanding loans until they are paid or become past due in accordance with the CNBV’s rules.

The terms “**total past due loans**” and “**total past due loan portfolio**” include past due principal and past due interest. For a description of our policies regarding the classification of loans as past due, see “Selected Statistical Information—Loan Portfolio—Past Due Loan Portfolio.” The term “**net past due loans**” refers to total past due loans less the allowance for loan losses on these loans.

References in this Offering Memorandum to “**provisions**” or “**reserves**” are to additions to the loan loss allowance or reserves recorded in a particular period and charged to income, except in the case of certain provisions associated with loans and foreclosed assets and other loan losses that were charged to stockholders’ equity (net of deferred taxes). See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations.”

References in this Offering Memorandum to “**allowance**” are to the aggregate loan loss allowance or reserves shown as of a particular date as a balance sheet item.

The terms “**total loans**” and “**total loan portfolio**” include total current loans plus total past due loans, each as defined above. The terms “**net total loans**” and “**net total loan portfolio**” refer to net total current loans plus net past due loans, as defined above.

The loan portfolio information provided in “Selected Statistical Information” was determined in accordance with the manner in which we have presented the components of our loan portfolio in other sections of this Offering Memorandum as described above, except that the data for the loan portfolio presented under “Selected Statistical Information” does not include amounts attributable to accrued interest, which represented 0.77% of our total loan portfolio as of December 31, 2022. See “Selected Statistical Information—Loan Portfolio” and the footnotes to the tables included therein.

Terms Relating to Our Capital Adequacy

As used in this Offering Memorandum, the following terms relating to our capital adequacy have the meanings set forth below, unless otherwise indicated.

- “**Total Capital**” or “**Total Net Capital**” refers to total net capital (*capital neto*), as such term is determined based on the Mexican Banking Law (*Ley de Instituciones de Crédito*) and the Rules for Capitalization referred to below.
- “**Tier 1 Capital**” refers to the basic capital (*parte básica*) of the Total Net Capital, as such term is determined based on the Rules for Capitalization.
- “**Fundamental Capital**” refers to our fundamental capital (*capital fundamental*) or “Core Equity Tier 1 Capital.”
- “**Tier 2 Capital**” refers to the additional portion (*parte complementaria*) of the Total Net Capital, as such term is determined based on the Rules for Capitalization.

- “**Capital Ratios**” refers to each of the ratios of (i)(a) the Total Net Capital, (b) Fundamental Capital or (c) Tier 1 Capital to (ii) risk-weighted assets, market risk and operational risk, calculated in accordance with the methodology established from time to time by the SHCP or the CNBV, as the case may be, pursuant to the Rules for Capitalization and the Mexican Capitalization Requirements.
- “**Capital Conservation Buffer**” refers to the capital supplement required to be equivalent to 2.5% of a Mexican bank’s total risk-weighted assets, pursuant to Section III(a) of Article 2 Bis 5 of the General Rules Applicable to Mexican Banks.
- “**General Rules Applicable to Mexican Banks**” means the General Rules Applicable to Mexican Banks (*Disposiciones de Carácter General Aplicables a las Instituciones de Crédito*) issued by the CNBV, as such regulations have been amended and may be amended from time to time.
- “**Rules for Capitalization**” means the provisions regulating the capitalization of banks included in the General Rules Applicable to Mexican Banks issued by the CNBV, as such regulations may be amended or superseded.
- “**Mexican Capitalization Requirements**” refers to the capitalization requirements for commercial banks set forth under the Mexican Banking Law, the Rules for Capitalization and the General Rules Applicable to Mexican Banks, as such regulations may be amended or superseded.

Other Definitions

The following additional definitions are used in this Offering Memorandum:

- “**Repurchase agreement**” means a Mexican law governed repurchase and resale agreement (*reporto*) pursuant to which a party acquires the ownership of receivables for a sum of money, and agrees to transfer to another party the ownership of receivables of the same type, within an agreed deadline and against reimbursement of the same sum of money plus a premium, which is payable to the first party, unless otherwise agreed.
- “**Sofom**” means multi-purpose financial entities, or *sociedades financieras de objeto múltiple*.

Rounding Adjustments

Certain amounts and percentages included in this Offering Memorandum have been subject to rounding adjustments. Accordingly, figures shown for the same category presented in different tables may vary slightly and figures shown as totals in certain tables may not be an arithmetical aggregation of the figures preceding them.

Market Share and Ranking Information

Unless otherwise indicated, the market share and ranking information included in this Offering Memorandum is derived from statistics of the CNBV or the Mexican Banking Association (*Asociación de Bancos de México, A.C.*), each as of December 31, 2022.

We accept responsibility for accurately reproducing the information and, as far as we are aware and are able to ascertain from information published by *Banco de México*, the CNBV or the Mexican Banking Association, no facts have been omitted which would render such reproduced information inaccurate or misleading.

SUMMARY

The following summary is qualified in its entirety by the detailed information appearing elsewhere in this Offering Memorandum and any supplement thereto. For a more complete understanding of us and the Program, you should read the entire Offering Memorandum and any supplement thereto, including the risk factors and our Audited Financial Statements included elsewhere in this Offering Memorandum and any supplement thereto.

The Bank

We are a leading multi-purpose bank with limited liability organized under Mexican law. As of December 31, 2022, we had total assets of Ps.2,753,601 million, total deposits of Ps.1,710,211 million and stockholders' equity of Ps.300,033 million. For the year ended December 31, 2022, our net income was Ps.76,530 million. As of December 31, 2022, based on assets, loans and deposits, we were the largest bank in Mexico according to information published by the CNBV as of December 31, 2022. In 2022, we offered our products and services to 28.0 million customers.

We are the principal subsidiary of Grupo Financiero BBVA México, S.A. de C.V., a holding company authorized to establish and operate as a subsidiary financial group of BBVA Spain, a global financial group that controls and owns the majority of GFBM's share capital. As of December 31, 2022, the Bank represented 89.17% of GFBM's total assets and 90.21% of GFBM's net income for 2022.

We are present in all 32 states of Mexico, serving our clients through a vast branch network and alternative distribution channels such as ATMs, bank correspondents, point-of-sale (“POS”) terminals, internet and cellular telephony, among others. Additionally, we have specialized executives who provide differentiated and personalized service to individuals, corporations, small and mid-sized companies, and government entities.

We are primarily focused on distributing our banking products and services efficiently. As of December 31, 2022, we distributed our products and services in Mexico through a nationwide network of 1,732 branches strategically located throughout all 32 states of Mexico, in addition to a branch located in Houston, Texas, for a total of 1,733 branches.

As of December 31, 2022, we operated 14,019 ATMs and 673,395 POS terminals, and we also offer our products and services through mobile phone apps and internet banking.

During the last three years, since the outbreak of the COVID-19 pandemic and various global events, such as the conflict between Russia and Ukraine, world economic activity has registered gradual growth. In Mexico, gross domestic product (“GDP”) declined by 8.2% from the end of 2019 to the end of 2020. However, with the opening of economically essential activities and the boost in the availability of vaccines at the national level in 2021, GDP grew 4.9% year-over-year, and, during 2022, GDP grew 3.1% year-over-year, according to the National Institute of Geography and Statistics (*Instituto Nacional de Estadística y Geografía*, or “INEGI”). However, the Bank has maintained its focus on the growth and development of the country through the granting of credit, which is reflected in the balance of the Bank's current portfolio as of December 31, 2022, which was Ps.1,492,329 million. The current portfolio balance grew by 6.6% in 2021 with respect to 2020. The evolution of the Bank's current portfolio has been accompanied by a non-performing loan ratio of 1.6% as of December 31, 2022, 1.7% as of December 31, 2021, and 3.0% as of December 31, 2020.

In terms of portfolio composition, with respect to Stage 1 and Stage 2 loans, as of December 31, 2022, the total balance of our performing commercial loan portfolio, which includes loans to companies, as well as to financial and government entities, represented 55.7% of our total loan portfolio, while the total balance of our consumer loan portfolio represented 23.9% of our total loan portfolio and the mortgage portfolio represented the remaining 20.4% of our total loan portfolio. For information on the different loan stages reflected in our 2022 financial information as a result of new accounting standards we have applied beginning on January 1, 2022, see “Selected Statistical Information—Loan Portfolio—Past Due Loan Portfolio” and Note 10 to our 2022 Financial Statements included elsewhere in this Offering Memorandum.

The Bank's net income was Ps.76,530 million for the year ended December 31, 2022, mainly driven by an environment of higher interest rates, higher commissions related to the volume of transactions, as well as our focus on not increasing expenses. For the year ended December 31, 2021, our net income increased by 66.6%, as compared to the prior year, and for the year ended December 31, 2020, our net income decreased by 26.6% as compared to the prior year.

The Bank forms part of a financial group that is innovating to address new market trends and focused on catering to the needs of our customers, aimed at maintaining the Bank as a leader in innovation, and as a benchmark institution. Our main priority is our customers, offering the best service and generating the best experience. Our business model is based on customer segmentation, with personalized and specialized attention that allows us to offer products and services adapted to their needs. We offer our products and services through the following business units:

- **Retail Network:** The Retail Network business unit manages the entire branch network, which offers services and serves all individual customer segments from ultra-high net worth, private, wealth and personal, to the banking and express segments. Micro businesses and small companies are also served by this unit.

The Retail Network has been an important pillar for the redesign of the structure of our branches, adding larger self-service spaces to improve the customer experience by improving the flow within the branches and adding intelligent ATMs that are able to grant credit.

- **Business and Government Banking:** With the aim of increasing cross-selling opportunities, the level of loyalty and improving the experience, the Business and Government Banking business unit offers specialized services and attention to the following customer segments:
 - **Business Entities:** comprises savings, credit, cash management and collection solutions. Through the BBVA Empresas app, customers can manage and administer their businesses from their cell phones, as well as take advantage of a wide variety of services and digital offers. During 2022, we formed an alliance with the National Agricultural Council (*Consejo Nacional Agropecuario*), with which our presence in this sector was strengthened.
 - **Home Developers:** provides credit to developers for construction purposes.
 - **Consumer Financing:** created as a specialized customer segment to exclusively to meet the various requirements of the automotive industry, including loans for the distribution and acquisition of vehicles. This segment also comprises part of the Corporate and Investment Banking segment, since it provides services to meet the financial needs of automobile dealers. During 2022, this segment recovered market share and, improved profitability and proximity to our customers.
 - **Government Entities:** offers specialized and personalized service to meet the needs of the Mexican federal government, the states and municipalities of Mexico and other government agencies. The wide range of products offered by this segment includes paycheck services for government employees and checking accounts, as well as tax collection and payment services for states and municipalities through products such as “*Multipagos*” and “*CIE en línea*.” During 2022, we created a specialized platform targeted at municipalities to consolidate the presence of this segment at the national level.
 - **BBVA Spark:** is a BBVA Group initiative to help high-growth companies (start-up, scale-up, unicorn, growth, etc.) with the agility and flexibility they need to achieve success. With bankers exclusively devoted to this segment, it is capable of offering short response times to meet financing needs and has specifically adapted risk processes.
- **Corporate and Investment Banking:** The Corporate and Investment Banking unit offers credit products and services to corporate and institutional clients, mergers and acquisitions services, market operations (equities and fixed income), cash management, online banking, and investment products. The bankers in this unit strive to ensure that clients receive the best service tailored to their needs. Some examples of products offered through this unit are: (i) “BBVA Net Cash,” a global electronic banking solution that allows efficient and secure banking operations through a secure and easy-to-use platform and (ii) “BBVA Trader Mx,” a platform that allows investors to carry out their own commercial operations online and in real time, and also offers market information, analysis, news and technical tools, which can be customized, to help clients in the financial decision making.

Corporate and Investment Banking also includes our global markets unit and, in association with Casa de Bolsa BBVA México, S.A. de C.V., Grupo Financiero BBVA México, offers more sophisticated products and services for individuals and corporations, such as placements and issues of debt securities,

capital and structured financing, among others. The Bank has led the SHCP and *Banco de México*'s classification of market makers since 2012.

As part of the Bank's overall strategy, during 2022, this unit advised and accompanied clients in the transition to sustainability, allocating Ps.117,405 million for projects with an impact on the environment and Ps.43,573 million for projects with a social impact.

The business units are accompanied by a structure of support to promote the consistent performance of our business, while offering integral management that promotes the creation of synergies for continuous growth.

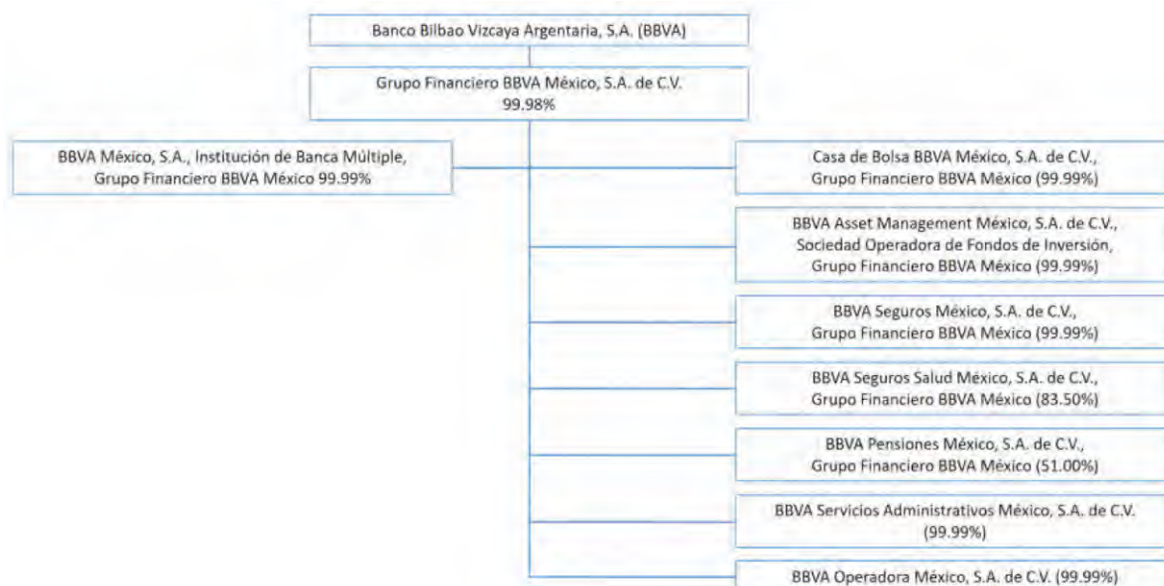
Organizational Structure

We are the principal subsidiary of GFBM, a holding company authorized under Mexican law to establish and operate a financial group.

In addition to our own products and services, we distribute and earn fee income and commissions from a wide range of financial and related products and services in Mexico for GFBM and other affiliates that are not our subsidiaries, including:

- bank insurance products on behalf of BBVA Seguros México, S.A. de C.V., Grupo Financiero BBVA México;
- mutual funds on behalf of BBVA Asset Management México, S.A. de C.V., Sociedad Operadora de Fondos de Inversión, Grupo Financiero BBVA México;
- pension fund management on behalf of BBVA Pensiones México, S.A. de C.V., Grupo Financiero BBVA México; and
- health insurance products on behalf of BBVA Seguros Salud México, S.A. de C.V., Grupo Financiero BBVA México.

The following chart presents our current holding organizational structure and that of GFBM, including principal subsidiaries and affiliates, as well as respective ownership interests as of the date of this Offering Memorandum:⁽¹⁾



(1) See our 2022 Financial Statements included elsewhere herein for a complete list of our subsidiaries.

Our headquarters are located at Paseo de la Reforma No. 510, Colonia Juárez, Demarcación Territorial Cuauhtémoc, Mexico City, Mexico, C.P. 06600. Our telephone number is +52 (55) 5621-3434.

Our History

General

The Bank was incorporated under the name “El Nuevo Mundo, S.A.” on October 8, 1945 in Mexico City. The Bank’s name was changed in 1951 to “Industria y Crédito, S.A.” and then to “Financiera Bancomer, S.A.” in 1957.

In 1977, several institutions forming a part of the Bancos de Comercio System, including Banco de Comercio S.A. and Hipotecaria Bancomer S.A., merged with Financiera México, S.A., as the merging company. As a result, Financiera Bancomer, S.A. changed its name to “Bancomer, S.A.”

Bancomer, like most other Mexican commercial banks, was nationalized in 1982. At the end of the 1980s, a series of measures were implemented to deregulate the Mexican financial system. This process of deregulation resulted in the re-privatization of commercial banks, including Bancomer, S.A.

As part of the subsequent privatization process, in 1991, a group of Mexican investors consisting of the major shareholders of Valores Monterrey Aetna, S.A. de C.V. acquired 56% of the outstanding capital stock of Bancomer, S.A. GFBM was incorporated in 1991 to acquire and hold a controlling interest in Bancomer and other financial institutions. GFBM subsequently increased its ownership of Bancomer through acquisitions and, in 1993, the Mexican government exchanged its remaining stake in Bancomer for shares of GFBM’s capital stock, which gave GFBM control of nearly 100% of Bancomer’s outstanding capital.

In July 2000, BBVA Spain acquired control of GFBM (through a Ps.1.4 billion capitalization), and as a result changed its name to Grupo Financiero BBVA Bancomer, S.A. of C.V.

In August 2000, the merger of GFBM and BBV-Probursa took effect.

On September 15, 2000, the merger of the Bank, as the merging party, was agreed upon and continued with Banca Promex, S.A., Institución de Banca Múltiple, which was extinguished, which took effect on October 6, 2000.

In November 2000, in the extraordinary general meetings of shareholders of the Bank and BBV México, S.A., their respective spin-off and merger agreements were approved, and these agreements took effect in December 2000. As a result, both credit institutions continued forming part of the BBVA Group, with different but complementary purposes. Subsequently, in 2001, their respective shareholders approved the name change of Bancomer, S.A., BBVA Bancomer, S.A., Institución de Banca Múltiple, Grupo Financiero BBVA Bancomer, and BBV-México, S.A. to BBVA Bancomer Servicios, S.A., Institución de Banca Múltiple, Grupo Financiero BBVA Bancomer.

The extraordinary general meeting of shareholders of the Bank that was held on October 3, 2001 approved the transformation of the Bank into a multiple banking institution subsidiary of GFBM, carrying out the corresponding modifications to its bylaws, as well as to reflect the reforms to the Credit Institutions Law, published in the Federal Official Gazette on June 4, 2001. The transformation was authorized by the SHCP on May 30, 2003. On May 9, 2002, GFBM obtained authorization to incorporate and operate as a subsidiary holding company of BBVA International Investment Corporation (BBVAIIC), through an indirect investment of 51% in its share capital. At that time, BBVAIIC, in turn, was wholly owned by BBVA Spain. The transformation of the Bank was formalized when these changes were registered in the Public Registry of Property and Commerce of the Federal District in 2003.

In 2009, after obtaining the corresponding authorizations, BBVA Spain increased its direct participation in the capital stock of GFBM to 99.98%.

In August 2009, after having obtained the necessary authorizations, the merger of the Bank as a merging company with BBVA Bancomer Servicios, S.A. was completed. As a result of this merger, the Bank now carries out the commercial activities of BBVA Bancomer Servicios, S.A., including fiduciary and ATM services.

On April 24, 2019, the global unification of the brand was reflected in all the geographies in which the BBVA Group operates. With this, in Mexico the brand changed from “BBVA Bancomer” to “BBVA.” The announcement to the public of this unification was made on June 10, 2019, announcing the unique brand and the new logo with the aim of continuing to advance in the transformation and globality under the new digital era. The ownership of the “BBVA” brand belongs to BBVA Spain and the Bank uses it by virtue of a license agreement signed by both entities.

As part of the unified identity of the BBVA Group of which the GFBM Group is a part, on January 24 and 27, 2020, the authorization requests for the modification of the corporate name were submitted to the SHCP and the CNBV, respectively, with respect to GFBM and the Bank, as well as other subsidiaries of GFBM. On September 4, 2020, the CNBV authorized the modification of the Bank’s corporate name, as well as that of other subsidiaries of GFBM. The SHCP granted authorization to modify the name of GFBM on March 19, 2021.

The financial entities that make up the GFBM Group changed their corporate names effective as of September 20, 2021. In the case of the Bank, the main subsidiary of GFBM, the new name is *BBVA México, S.A., Institución de Banca Múltiple, Grupo Financiero BBVA México*, which has replaced the previous name of *BBVA Bancomer, S.A., Institución de Banca Múltiple, Grupo Financiero BBVA Bancomer*.

Strategy and Strengths

The constant transformation and innovation of products based on experience and customer service, aligned with strategic priorities marked by our purpose and values, is one of the main hallmarks of our identity.

Our values, which are at the core of our strategy, are the following:

- *The Client is First* - our customers’ experience and needs are our highest priority
- *We Think Big* - we want to help our customers achieve their most relevant goals by being more than a bank
- *We Are One Team* - we encourage everyone at the Bank to actively participate so that everyone works towards the same common objectives

These values guide us toward achieving our main and final purpose: “*To bring the age of opportunity to everyone.*”

To continue accelerating and deepening the impact of the transformation, we have taken another step that will allow us to adapt to the trends that are changing the world and the financial industry. With a clear vision of the

future and anticipating future needs, the guideline for the entire Group is based on the following six strategic priorities, based on the following three pillars:

- What represents us:
 - Improving our clients' financial health
 - Helping our clients transition towards a sustainable future
- Leverage our existing assets to create distinctive performance:
 - Reaching more clients
 - Driving operational excellence
- Our utilization of boosters to help us achieve our main goals:
 - the best and most engaged team
 - data and technology

Recent Developments

At the meeting of our shareholders held on February 28, 2023, our shareholders approved the distribution of dividends for Ps.65,000 million from our retained earnings for the year ended December 31, 2022, and authorized each the Chairman, Vice-president and the Secretary of our Board of Directors to, individually, take the following actions: (i) decide on the payment of dividends to shareholders on a pro rata basis; (ii) determine the amount of each dividend payment, which shall not exceed the total amount of distributable dividends authorized by our shareholders' meeting; (iii) announce the dividend payment dates; and (iv) determine the proportion of dividend payment for each of our outstanding shares.

During the first quarter of 2023, as part of the dividends that were distributed pursuant to the approval of the ordinary general meeting of shareholders dated February 28, 2023, we declared and paid a cash dividend of Ps.1.07114068085361 per outstanding share.

On February 16, 2023, we issued two series of bonds in the local market for an aggregate total amount of Ps.14,820 million. The first series, which was a green bond, was issued in the aggregate principal amount of Ps.8,689 million, bears interest at a floating rate equal to the overnight Interbank Equilibrium Interest Rate (the "TIE") + 32 basis points, and matures in four years. This was our second green bond issued in the local market, which reaffirms our commitment to the environment and the fight against climate change. The second series was issued in the aggregate principal amount of Ps.6,131 million, bears interest at a rate of 9.54% and matures in seven years.

Recent Ratings Information

On December 1, 2022, Fitch Ratings Inc. ("**Fitch**") confirmed the global rating of "BBB" with a stable outlook.

During the fourth quarter of 2022, we declared and paid a cash dividend of Ps.1.28892829990225 per share, which is part of the dividends that were distributed pursuant to the approval of the ordinary general meeting of shareholders dated February 28, 2022.

In September 2022, our Tier 2 Subordinated Notes, issued in July 2012 in an aggregate principal amount of U.S.\$ 1.5 billion, matured and were repaid in full.

During the third quarter of 2022, we declared and paid a cash dividend of Ps.0.654549351438546 per share, which is part of the dividends that were distributed pursuant to the approval of the ordinary general meeting of shareholders dated February 28, 2022.

On July 8, 2022, Moody's Investors Service, Inc. ("**Moody's**") downgraded Mexico's sovereign debt rating to 'Baa2' from 'Baa1' and changed the outlook to 'stable' from 'negative'. As a result of the above action, on July 12, 2022, Moody's downgraded our Baseline Credit Assessment (BCA) to 'Baa2' from 'Baa1'. The Bank's BCA is limited by sovereign rating, reflecting the high direct and indirect correlation between our balance sheet and the sovereign credit profile. At the same time, Moody's ratified our long-term deposit and senior unsecured debt ratings in 'Baa1', as well as our Texas Agency's senior long-term unsecured debt rating in 'Baa1'. The change from perspective to 'stable' from 'negative' is in line with Moody's expectation that we will continue to benefit from broad

support from our parent BBVA Spain and its intrinsic financial strength driven by continued risk and the leadership position that the institution keeps in the market.

On July 6, 2022, Standard & Poor's Financial Services LLC ("S&P") revised our outlook to 'stable' from 'negative'. This rating action follows a similar action on the Mexican sovereign risk. Our 'stable' outlook reflects our link to the country's economic and operating environment, as well as our individual credit factors. The ratings of our subordinated debt as of the date of this Offering Memorandum range from BB+ to BB.

Recent Issuances of Indebtedness

On June 21, 2022, we issued sustainable bonds in the local market in the aggregate principal amount of Ps.10 billion. This issuance was the first sustainable bond issued by a privately-owned bank in Mexico using the THIE as a benchmark rate. The issuance of the sustainable bonds was a major milestone, as it reflects two of our principal areas of focus: climate action and inclusive growth.

During the second quarter of 2022, three of our long-term bonds in the aggregate principal amount of Ps.7,858 million became due and were repaid. On May 20, 2022, Ps.1,858 million aggregate principal amount of our BACOMER 17-2 bonds matured and were paid. On May 26, 2022, Ps.1,000 million aggregate principal amount of our BACOMER 22224 bonds matured and were paid. Finally, on June 17, 2022, Ps.5,000 million aggregate principal amount of our BACOMER 19 bonds matured and were paid.

In April 2022, we prepaid the local bond issued by the 881 irrevocable bonds issuance trust ("trust F-881"), the assets of which consisted of credit rights, among others, with the proceeds of the issuance by Banco Invex, S.A., Institución de Banca Múltiple, acting solely as Trustee (*fiduciario*), of local bonds with the ticker BACOMCB 09-3, under which the Bank acted as Settlor (*fideicomitente*). With this prepayment, trust F-881 was liquidated and eliminated from our balance sheet. The value of trust F-881's portfolio was Ps.584 million.

Market Information

The following table provides comparative information with respect to the Bank and certain selected leading banks in Mexico as of December 31, 2022 (unless otherwise indicated). This comparison is for illustrative purposes only.

	The Bank ⁽¹⁾	Citibanamex	Banorte	Santander	HSBC	Scotiabank
	(millions of Ps., except for percentages)					
Total loan portfolio.....	1,516,177	580,343	905,914	810,082	418,145	495,317
Total deposits funding	1,749,373	973,446	930,180	942,777	541,311	535,220
Market share (total loans).....	24.30%	9.30%	14.52%	12.98%	6.70%	7.94%
Total assets	2,753,601	1,484,293	1,549,874	1,845,039	780,248	751,502
Total loan portfolio / total assets.....	55.06%	39.10%	58.45%	43.91%	53.59%	65.91%
Total loan portfolio / total deposits.....	86.67%	59.62%	97.39%	85.93%	77.25%	92.54%
Total stockholders' equity	300,033	191,250	144,673	166,235	71,884	75,294
Net income	76,530	20,433	34,549	26,469	10,010	11,117
Return on assets (ROA) ⁽²⁾	2.94%	1.40%	2.23%	1.45%	1.32%	1.57%
Return on equity (ROE) ⁽³⁾	26.27%	10.92%	24.65%	16.43%	14.46%	15.10%
Cost of funding ⁽⁴⁾	2.81%	3.19%	3.52%	4.22%	4.69%	7.02%
Delinquency ratio ⁽⁵⁾	1.57%	2.65%	1.01%	1.88%	3.05%	3.74%
Operating efficiency ratio ⁽⁶⁾	32.78%	66.82%	41.02%	47.34%	60.04%	52.71%
Branches.....	1,733	1,267	1,154	1,037	878	450

(1) Data for the Bank is derived from the Bank's 2022 Financial Statements. Data for other financial institutions is derived from information reported by the CNBV.

(2) ROA is equal to net income for the year divided by average assets for the year.

(3) ROE is equal to net income for the year divided by average equity for the year.

(4) Source: Banco de México.

(5) Delinquency ratio is equal to total non-performing loans divided by total loans.

(6) Operating efficiency is equal to (x) administrative and promotional expenses divided by (y) net interest income plus net commissions plus other operating income (expenses) plus financial intermediation income for the year.

SUMMARY OF THE PROGRAM

The following is a summary of the description of Notes which may be offered under the Program, and any decision to invest in any Notes should be based on a consideration of this Offering Memorandum as a whole, including any supplement hereto. The specific terms of the Notes will be as set forth in the relevant Pricing Supplement and may contain terms and conditions which differ from, or are in addition to, those set forth below. Capitalized terms used but not defined in this section have the meanings assigned to them in “Description of the Notes.” For a more complete description of the terms of the Notes, see “Description of the Notes.”

THE NOTES AND THE PROGRAM

- Issuer:** BBVA México, S.A., Institución de Banca Múltiple, Grupo Financiero BBVA México, acting through its Texas Agency, unless the applicable Pricing Supplement specifies that the Bank is acting directly (each, a “**Pricing Supplement**”).
- Arranger:** BNP Paribas Securities Corp.
- Dealers:** Banco Bilbao Vizcaya Argentaria, SA, Barclays Capital Inc., Barclays Bank PLC, BBVA Securities Inc., BNP Paribas, BNP Paribas Securities Corp., BofA Securities, Inc., Citigroup Global Markets Inc., Crédit Agricole Corporate and Investment Bank, Credit Suisse Securities (USA) LLC, Deutsche Bank AG, London Branch, Deutsche Bank Securities Inc., Goldman Sachs & Co. LLC, HSBC Securities (USA) Inc., J.P. Morgan Securities LLC, Morgan Stanley & Co. LLC, MUFG Securities Americas Inc., Nomura Securities International, Inc., SMBC Nikko Securities America, Inc., Standard Chartered Bank, UBS AG London Branch, UBS Securities LLC and Wells Fargo Securities, LLC, and any other Dealer appointed from time to time in accordance with the Dealer Agreement.
- Notes may also be issued to or placed through other dealers and to third parties other than dealers.
- Trustee, Registrar, Transfer Agent and Paying Agent:** The Bank of New York Mellon will act as trustee, registrar, transfer agent and paying agent (the “**Trustee**”).
- Listing Agent:** The Bank of New York Mellon SA/NV, Dublin Branch, will act as the Euronext Dublin listing agent, unless otherwise stated in the applicable Pricing Supplement.
- Program Size:** The maximum aggregate principal amount of all Notes from time to time outstanding under the Program will not exceed U.S.\$10,000,000,000 (or its equivalent in other currencies calculated as described in the Dealer Agreement), subject to increase in accordance with the terms of the Dealer Agreement.
- Distribution:** The method of distribution of each Tranche (as defined below) will be stated in the applicable Pricing Supplement.
- Notes may be distributed (i) to persons reasonably believed to be qualified institutional buyers (as defined in Rule 144A under the Securities Act) and (ii) outside the United States to persons other than U.S. persons (as such terms are defined in Regulation S under the Securities Act) in offshore transactions meeting the requirements of Regulation S under the Securities Act, in each case on a syndicated or non-syndicated basis, subject to the selling restrictions described under “Plan of Distribution” and “Transfer Restrictions.”
- Issuance:** Unless otherwise specified in the applicable Pricing Supplement, each Series of Notes may contain one or more tranches of Notes (each, a “**Tranche**”) having identical terms, including the Original Issue Date and the public offering price. Unless specified in the applicable Pricing Supplement, Additional Notes may be

issued as part of existing Series of Senior Notes. See “Description of the Notes—General—Further Issuances.” Unless otherwise specified in the applicable Pricing Supplement, Additional Notes may not be issued as part of an existing Series of Subordinated Notes. See “Description of the Notes—General—Further Issuances.” The specific terms of each Tranche will be set forth in the applicable Pricing Supplement.

Series: Each original issue of Notes, together with any further issues of Notes expressed to form a single series with the original issue, which are denominated in the same currency, have the same Maturity Date (as indicated in the applicable Pricing Supplement) and Interest Payment Dates (if any) and have identical terms (including listing, but excluding the Original Issue Date or the initial Interest Payment Date, as the case may be, and the public offering price) shall constitute a “Series.” The expression “Notes of the relevant Series” shall be construed accordingly.

Status of the Notes: Each Note will be unsecured and will be either a senior or a subordinated debt obligation of the Bank.

Notes that are senior debt obligations will rank equally with all other senior unsecured and unsubordinated obligations of the Bank, as described in the Senior Notes Indenture and the applicable Pricing Supplement.

Notes that are subordinated debt obligations will rank (i) subordinated and junior to all of the Bank’s present and future senior indebtedness, (ii) *pari passu* with all of the Bank’s other present and future subordinated preferred indebtedness and (iii) senior to Subordinated Non-Preferred Indebtedness (*obligaciones subordinadas no preferentes*) and all classes of the Bank’s capital stock, as specified in the applicable Subordinated Notes Indenture and the applicable Pricing Supplement. See “Description of the Notes—General.”

Specified Currencies: Subject to any applicable legal or regulatory restrictions, such currencies as may be agreed between the Bank and the relevant Dealer(s), as indicated in the applicable Pricing Supplement.

Use of Proceeds: Unless otherwise specified in the applicable Pricing Supplement, the net proceeds from each issue of Notes will be used for general corporate purposes of the Bank and its subsidiaries. If there is a particular identified use of proceeds, this will be stated in the applicable Pricing Supplement.

Where the “Use of Proceeds” section of the applicable Pricing Supplement are stated to be for “green,” “social” or “sustainability” purposes as described in this “Use of Proceeds” section, the net proceeds from each such issue of SDG Notes (as defined under “Risk Factors—Risks Relating to the Notes—The application of the net proceeds of SDG Notes as described under “Use of Proceeds” may not meet investor expectations or be suitable for an investor’s investment criteria”) will be used as so described; *provided* that any such event or failure to apply the net proceeds of any issue of SDG Notes for any Sustainability Projects or to obtain and publish any such reports, assessments, opinions and certifications, will not constitute an event of default under the relevant SDG Notes or give rise to any other claim of a holder of such SDG Notes against the Bank.

Issue Price: Notes may be issued at an issue price which is equal to, less than or more than their principal amount, as provided in the applicable Pricing Supplement.

Form of Notes: Notes will be issued in registered form in the nominal amount of a specified denomination as provided in the applicable Pricing Supplement.

Notes offered and sold in offshore transactions in reliance on Regulation S to persons which are non-U.S. persons will be represented by one or more global

notes in registered form (each, a “**Regulation S Global Note**”). Prior to expiry of the distribution compliance period (as defined in Regulation S) applicable to each Tranche of Notes, beneficial interests in a Regulation S Global Note may not be offered or sold to, or for the account or benefit of, a U.S. person and may not be held otherwise than through The Depository Trust Company (“**DTC**”), Euroclear Bank SA/NV (“**Euroclear**”) or Clearstream Banking, S.A. (“**Clearstream**”), and such Regulation S Global Note will bear a legend regarding such restrictions on transfer.

Notes offered and sold to persons reasonably believed to be “qualified institutional buyers” within the meaning of Rule 144A under the Securities Act will be represented by one or more global notes in registered form (each, a “**Rule 144A Global Note**” and, together with each Regulation S Global Note, the “**Global Notes**”).

We will not offer Notes in bearer form.

Deposit:

Notes will either (i) be deposited with a custodian for, and registered in the name of a nominee of, DTC or (ii) be deposited with a common depository for, and registered in the name of a common nominee of, Euroclear, Clearstream or any other clearance system, as specified in the applicable Pricing Supplement. No beneficial owner of an interest in a Note will be able to transfer such interest, except in accordance with the applicable procedures of DTC, Euroclear and Clearstream, in each case to the extent applicable.

Fixed Rate Notes:

The Issuer will pay interest on Notes that are Fixed Rate Notes on the dates specified in the applicable Pricing Supplement.

Fixed Reset Notes:

The Issuer will pay interest on Notes that are Fixed Reset Notes on the dates specified in the applicable Pricing Supplement. The interest rate on Fixed Reset Notes will reset on each Fixed Reset Date by reference to the relevant Reset Margin and Reset Reference Rate.

Floating Rate Notes:

The Issuer will pay interest on Floating Rate Notes on the dates specified in the applicable Pricing Supplement. Each series of Floating Rate Notes will have one or more interest rate bases as indicated in the applicable Pricing Supplement.

The interest rate on each Floating Rate Note for each interest period will be determined by reference to the applicable interest rate bases specified in the applicable Pricing Supplement for that interest period, plus or minus the applicable spread, if any, and/or multiplied by the applicable spread multiplier, if any. The applicable Pricing Supplement will also specify the maximum or minimum interest rate, if any, and certain additional terms.

Interest on Floating Rate Notes will be computed in the manner and will be payable on the dates described under the section entitled “Description of the Notes—Floating Rate Notes.” Interest on Floating Rate Notes will be calculated on the basis of such Floating Day Count Fraction (as defined under “Description of the Notes—Floating Rate Notes—How Interest Is Calculated”) as may be set forth in the applicable Pricing Supplement.

**Interest Period(s) or
Interest Payment Date(s)
for Floating Rate Notes:**

Such period(s) or date(s) as may be indicated in the applicable Pricing Supplement.

Fixed/Floating Rate Notes:	Fixed/Floating Rate Notes bear interest at a rate that converts from a fixed rate to a floating rate. See “Description of the Notes—Floating Rate Notes—Regular Floating Rate Note; Fixed/ Floating Rate Note; Floating/Fixed Rate Note; Inverse Floating Rate Note—Fixed/Floating Rate Note.”
Floating/Fixed Rate Notes:	Floating/Fixed Rate Notes bear interest at a rate that converts from a floating rate to a fixed rate. See “Description of the Notes—Floating Rate Notes—Regular Floating Rate Note; Fixed/ Floating Rate Note; Floating/Fixed Rate Note; Inverse Floating Rate Note—Floating/Fixed Rate Note.”
Indexed Notes:	Notes may be issued with the principal amount payable at maturity, or interest to be paid thereon, or both, to be determined with reference to the price or prices of specified commodities or securities, baskets of securities, indices of securities, stocks, the exchange rate of one or more specified currencies relative to an indexed currency or other formulae, assets or bases of reference, as may be specified in such Note and the applicable Pricing Supplement.
Extendible Notes:	Notes may be issued with an Initial Maturity Date, which may be extended from time to time upon the election of the holders on specified Election Date(s) up to a Final Maturity Date, as set forth in the applicable Pricing Supplement. The Pricing Supplement relating to each issue of Extendible Notes will set forth the terms of such Notes.
Dual Currency Notes:	Notes may be issued under which the Issuer is permitted under certain circumstances to pay principal, premium, if any, and/or interest in more than one currency or in a composite currency. The terms of any Dual Currency Notes will be as set forth in the applicable Pricing Supplement related to any such Notes.
Amortizing Notes:	Amortizing Notes are Fixed Rate Notes for which payments combining principal and interest are made in installments over the life of the Note. Payments with respect to Amortizing Notes will be applied first to interest due and payable thereon and then to the reduction of the unpaid principal amount thereof. The terms and conditions of any Amortizing Notes, including the amortization schedule, will be set forth in the applicable Pricing Supplement related to any such Notes.
Original Issue Discount Notes:	Notes may be issued at a discount from the principal amount payable at maturity that is equal to or more than the <i>de minimis</i> threshold (as determined for U.S. federal income tax purposes). Certain additional considerations relating to Original Issue Discount Notes may be described in the applicable Pricing Supplement relating thereto.
Redemption:	The Pricing Supplement relating to each Tranche of Notes will indicate either that the Notes of that Series cannot be redeemed prior to their stated maturity, that such Notes will be redeemable for taxation reasons or at the option of the Issuer and/or the Noteholders or, with respect to Subordinated Notes, in the case of the occurrence of a Special Event.
Events of Default, Notice and Waiver:	An Event of Default with respect to Senior Notes shall take place as set forth in “Description of the Notes—Certain Terms and Conditions Applicable to Senior Notes—Events of Default, Notice and Waiver.” An Event of Default with respect to Subordinated Notes shall take place as set forth in “Description of the Notes—Certain Terms and Conditions Applicable to Subordinated Notes—Events of Default, Notice and Waiver.”

**Consolidation, Merger,
Sale or Transfer of Assets:**

The Bank may not, without the consent of holders of at least 66²/₃% in aggregate principal amount of the outstanding Notes of each Series outstanding, consolidate with or merge into, or convey or transfer, in one transaction or a series of transactions, all or substantially all of its properties and assets to any person, as described under “Description of the Notes—Covenants—Consolidation, Merger, Sale or Transfer of Assets.”

Denomination of Notes:

Notes may be issued in such denominations as may be agreed between the Issuer and the relevant Dealer(s) and as indicated in the applicable Pricing Supplement.

Additional Amounts:

All payments made by or on the Issuer’s behalf in respect of the Notes will be made free and clear of, and without withholding or deduction for or on account of, any present or future taxes, duties, levies, imposts, assessments or governmental charges of whatever nature, imposed or levied by or on behalf of Mexico, the United States, or any other jurisdiction through which payments are made or any authority or agency therein or thereof having power to tax (collectively, “**Relevant Tax**”) unless the withholding or deduction of such Relevant Tax is required by law or by the interpretation or administration thereof. In that event, the Issuer will pay additional amounts, subject to certain exceptions and limitations, as described under “Description of the Notes—Other Terms and Conditions Applicable to the Senior and Subordinated Notes—Payment of Additional Amounts,” or as otherwise provided in the applicable Pricing Supplement, so that the net amounts received by holders or beneficial owners of the Notes or their nominees after such withholding or deduction will equal the amount which would have been received in respect of the Notes in the absence of such withholding or deduction.

Rating:

The Notes of each Series issued under the Program may be rated or unrated. Where the Notes of a Series are rated, such rating will be set out in the applicable Pricing Supplement. A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

**Listing and Admission to
Trading:**

Application may be made to Irish Stock Exchange plc trading as Euronext Dublin (“**Euronext Dublin**”) to admit a Series of Notes to the Official List and for admission to trading on the Global Exchange Market, which is the exchange-regulated market of Euronext Dublin, application may also be made to list a Series of Notes on another exchange or a series of Notes may be unlisted, in each case as specified in the applicable Pricing Supplement.

Governing Law:

The Senior Notes Indenture is, and any Subordinated Notes Indenture and the Notes will be, governed by, and construed in accordance with, the law of the State of New York; *provided* that the ranking and subordination of the Subordinated Notes, certain matters arising under Mexican law as set forth in the applicable Pricing Supplement, and matters relating to the Bank’s insolvency or liquidation will be governed by, and construed in accordance with, Mexican law (as amended from time to time). See “Description of the Notes—Governing Law; Consent to Jurisdiction.”

The Issuer will consent to the jurisdiction of the Supreme Court of the State of New York, Borough of Manhattan, County of New York, and the United States District Court for the Southern District of New York. See “Description of the Notes—Governing Law; Consent to Jurisdiction.”

Transfer Restrictions:

The Notes have not been, and will not be, registered under the Securities Act and may not be offered or sold within the United States to, or for the account or benefit of, U.S. persons except to persons reasonably believed to be “qualified

institutional buyers” in accordance with Rule 144A or outside the United States to non-U.S. persons in reliance on Regulation S under the Securities Act or pursuant to another exemption from the registration requirements of the Securities Act. Additional transfer restrictions may be set forth in an applicable Pricing Supplement. See “Transfer Restrictions.”

As required under Article 7, second paragraph, of the Mexican Securities Market Law, Articles 24 Bis, 24 Bis 1 and other related Articles of the General Provisions Applicable to Securities Issuers and other Securities Market Participants (*Disposiciones de Carácter General Aplicables a las Emisoras de Valores y otros Participantes del Mercado de Valores*), we will notify the CNBV of the terms and conditions of any offering of the Notes outside of Mexico, for statistical and informational purposes only. The Notes have not been and will not be registered with the RNV maintained by the CNBV and, therefore, the Notes may not be publicly offered or sold in Mexico. The Notes may be offered and sold in Mexico, on a private placement basis, solely to investors that qualify as institutional or accredited investors, pursuant to the private placement exemption set forth in Article 8 of the Mexican Securities Market Law and regulations thereunder. See “Transfer Restrictions.”

Risk Factors:

You should carefully consider all of the information contained in this Offering Memorandum prior to investing in the Notes. In particular, we urge you to carefully consider the information set forth under “Risk Factors” beginning on page 14 for a discussion of the risks and uncertainties relating to us, our business, the Mexican financial industry, our stockholders, Mexico and the Notes.

RISK FACTORS

An investment in the Notes involves risk. You should carefully consider the risks and uncertainties described below and the other information contained in this Offering Memorandum before making an investment in the Notes. Our business, financial condition or results of operations could be materially and adversely affected by any of these risks. The risks described below are not the only ones facing us or Mexican banks and other corporations in Mexico. Additional risks and uncertainties not currently known to us or that we currently deem non-material may also materially and adversely affect our business and our ability to make payments on the Notes.

Risks Relating to Our Business

As a result of the implementation of new accounting criteria for credit institutions in Mexico established by the CNBV, financial information as of and for the year ended December 31, 2022 is not comparable with financial information for prior years.

Pursuant to publications in the Federal Official Gazette dated December 4, 2020 and December 30, 2021, the CNBV announced the obligation, effective January 1, 2022, for Mexican banks and other financial institutions in Mexico to adopt new accounting standards. In addition, pursuant to the transitory articles of the General Rules Applicable to Mexican Banks, and as a practical solution, Mexican banks may recognize as of the date of initial application, which is January 1, 2022, the cumulative effect of the accounting changes and shall not present retrospectively the effects of such accounting changes in financial statements for prior periods. See Notes 2(a), 3 and 3(d) to our 2022 Financial Statements included elsewhere in this Offering Memorandum for additional details about the new accounting criteria that we use in the classification and measurement of financial assets and liabilities pursuant to the new accounting standards. As a result, financial information as of December 31, 2022 and for the year then ended presented in this Offering Memorandum is not comparable with financial information as of December 31, 2021 or 2020 or for the years then ended or for any prior historical financial period. The lack of comparability may make it difficult to gain a full and accurate understanding of our operations and financial condition as of December 31, 2022. For more information about the new accounting standards, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Recent Changes in Mexican Banking GAAP,” “Selected Statistical Information—Loan Portfolio—Past Due Loan Portfolio,” “Selected Statistical Information—Grading of Loan Portfolio,” “Annex A—Significant Differences Between Mexican Banking GAAP and U.S. GAAP” and “Annex B—Significant Differences Between Mexican Banking GAAP and IFRS.”

Reforms to laws relating to labor, social security and tax matters could result in additional modifications to the Bank’s hiring regime.

On April 20, 2021, reforms to various laws relating to labor, social security and tax matters were approved with the aim of, among others: (i) prohibiting subcontracting, unless it relates to specialized services or the execution of specialized works, which are not part of the corporate purpose or the economic activity of the beneficiary, (ii) establishing the authorizations and records that specialized personnel companies must obtain for the provision of said services, and (iii) establishing penalties and tax consequences for companies that use or benefit from the subcontracting of personnel in violation of such laws.

Prior to the entry into force of the above-referenced reforms, the Bank’s employees were hired through authorized and regulated service providers, as applicable, in accordance with the then-applicable laws. However, as a result of such reforms, the Bank implemented significant modifications to its contracting scheme which resulted in the incurrence of extraordinary expenses and an increase in the Bank’s operating costs which had an immaterial effect on the Bank, since part of the reform requirements were absorbed by the variable compensation available to the Bank. Due to the recent nature of these reforms, the magnitude of their impact on the Bank has been reflected in operational rather than financial terms.

Any future reforms to laws relating to labor, social security and tax matters could result in additional modifications to the Bank’s hiring regime and, accordingly, may have an adverse effect on the Bank’s financial position and results of operations.

Modifications to the regulation of the electric energy sector in Mexico could cause the Bank and its clients to modify their sources of electricity supply.

During 2022, the Mexican Congress rejected an initiative to amend the Political Constitution of the United Mexican States with respect to the electricity sector announced by the Mexican federal government during 2021. Nonetheless, by means of amendments to the sector’s secondary regulation, including to the Electric Industry Law

(*Ley de la Industria Eléctrica*), several changes have been implemented. On April 7, 2022, the Mexican Supreme Court discussed a constitutional claim presented by members of the Senate against certain modifications to the Electric Industry Law published in the Federal Official Gazette on March 9, 2021. The Supreme Court dismissed such constitutional claim. Thus, the amendments to the Electric Industry Law and the remaining regulation continue to be applicable.

The Bank has entered into electricity supply contracts with various suppliers. If the corresponding generators or suppliers cannot fulfill their obligations under the contracts entered into with the Bank due to the implementation of any modifications of the regulations governing the electricity sector, the Bank would have to pay, at least temporarily, the regulated tariff of the basic supply determined by the Energy Regulatory Commission (*Comisión Reguladora de Energía*) and charged by CFE Basic Service Provider, a subsidiary of CFE, which could represent a significant increase in the Bank's costs for electricity and, therefore, adversely affect its operating results. The implementation of any modifications to the current energy regulation could also materially negatively affect the financial position of the Bank's clients that are large consumers of electricity, and, therefore, their ability to meet their credit obligations to the Bank. In addition, if approved, any further initiatives could materially negatively affect the financial situation of the Bank's private energy sector clients and, therefore, their ability to fulfill their loan obligations to the Bank. Furthermore, it would eliminate investment incentives to the private sector, weakening the industry overall.

Currently, it is not possible to predict with certainty whether any additional modifications to the regulations governing the electricity sector will be enacted and, if so, the magnitude of the impact that any such modifications could have on the Bank or its clients.

Geopolitical challenges and other global uncertainties could negatively affect the BBVA Group.

In addition to the significant macroeconomic challenges caused by the COVID-19 pandemic, which in 2020 caused a drop in GDP in many of the countries where the BBVA Group operates, including Mexico, the BBVA Group could experience negative impacts on its business, financial condition and results of operations due to geopolitical challenges and other uncertainties worldwide. Currently, the global economy faces a number of exceptional challenges. Russia's invasion of Ukraine, the largest military attack on a European state since World War II, could continue to cause significant disruption, instability and volatility in global markets, as well as prolong the currently elevated inflation rates (including contributing to further increases in energy, oil and other commodity prices and causing further disruption in supply chains) and lower or negative growth. The European Union, the United Kingdom, the United States and other governments have imposed significant sanctions and export controls against Russia and its interests, as well as limitations of certain Russian citizens free transit and assets seizure within territories of the European Union, and have threatened to impose additional sanctions and controls. Although the impact of such measures and Russia's possible responses to them are uncertain, any such measures could materially and adversely affect the BBVA Group's business, financial condition and results of operations. Moreover, geopolitical and economic risks have also increased in recent years as a result of trade tensions between the United States and China, Brexit, the rise of populism and tensions in the Middle East. Increasing trade tensions may lead, among other things, to a de-globalization of the world economy, increased protectionism or barriers to immigration, overall reduction in international trade in goods and services, as well as reduced financial market integration. All of the above could materially and adversely affect the BBVA Group's and our business, financial condition and results of operations.

We have been, and may continue to be, adversely affected by global economic conditions, particularly those in the United States and in international financial markets that affect us, our clients, our business and/or the financial services industry in general.

On July 1, 2020, the agreement between the United States, Mexico and Canada (USMCA) entered into force and substituted NAFTA. Unlike NAFTA, the USMCA includes a sunset clause that requires the USMCA to be analyzed and modified, if applicable, every six years, and after 16 years the terms of the USMCA will expire, at which point they will need to be renegotiated and restated. This treaty also includes amendments to the rules of origin in practically all sectors in order to certify a product as originating in the region, rules to deter artificial changes to exchange rates to obtain commercial advantages, additional intellectual property protections, as well as amendments in labor matters and information technologies, among other provisions. More generally, there may be changes in other existing trade agreements, greater restrictions on free trade in general and significant increases in tariffs on goods imported from Mexico into the United States.

Due to the entry into force of the USMCA in 2020, coupled with the economic and social situation caused by the sanitary measures imposed to prevent the spread of COVID-19 between 2020 and 2021, as well as the recent reforms in the electricity sector and the consequences of the armed conflict in Ukraine, it is not possible to predict the effects that this treaty will have. However, as a general rule, the modifications in regimes affecting foreign trade may adversely affect Mexico, our clients and our business, results of operations and financial condition.

Further adverse changes affecting the European economy, and the Spanish economy more specifically, such as increased inflation rates, could adversely affect the BBVA Group and its credit ratings. Such events could affect the perception of our brand among our clients, which could, in turn, have an impact on our business, results of operations and financial condition.

The events described above, geopolitical events or global economic or other conditions generally, and related uncertainty could have the one or more of following effects:

- an economic downturn or insufficient recovery of the economy generally and the financial markets and any adverse social or political developments for any reason, including illnesses or epidemics, such as the COVID-19 pandemic, which may adversely impact our business, financial condition and results of operations;
- increased regulation of the financial industry, which may increase our costs of capital, capital reserves and liquidity requirements, affect the pricing of our products and services and limit our ability to pursue business opportunities or to grow our loan portfolio;
- the inability to estimate losses inherent in credit exposure or to make difficult, subjective and complex judgments, including forecasts of economic conditions and how these economic conditions might impair the ability of our customers to pay their leases and loans;
- the inability of corporate and individual borrowers to timely or fully comply with their existing obligations;
- the derivatives markets and similar operations, including volatility affecting those operations, could adversely impact global financial systems and the solvency of its participants;
- the value of our portfolio of investment securities may be adversely affected; and
- our ability to obtain capital and liquidity on favorable terms, or at all, whether due to increasing our cost of capital or funding or forcing us to increase the fees we charge to customers, may have a significant adverse effect on our margins, financial condition and results of operations.

Uncertainty exists concerning the future economic environment in the United States, Mexico and the international markets. In particular, the banking industry and the capital and credit markets have recently experienced extreme volatility and economic disruption, and inflation and rapid increases in interest rates have led to a decline in the trading value of previously issued government securities with interest rates below current market interest rates, which may result in additional liquidity concerns in the financial services industry. Such factors have recently been exacerbated by actual events or concerns involving liquidity, defaults or non-performance by financial institutions or transactional counterparties experienced by several financial institutions, including, on a global level, Credit Suisse Group AG, which will be acquired by UBS Group AG with the support of the Swiss government, and, in the United States, Silicon Valley Bank and Signature Bank, each of which was put into receivership. Such economic uncertainty could have a negative impact on our business, results of operations and financial condition and adversely affect our ability to access financial markets. A slowing or decline in economic activity in the United States and/or Mexico, the global economic effects of the COVID-19 pandemic, fluctuations in crude oil prices, uncertainties relating to the monetary policies of the U.S. and Mexican governments may aggravate the adverse effects of these difficult economic and market conditions on us and other participants in the financial services industry.

Volatility in the global financial markets could have a significant adverse effect on our business, including on our ability to obtain capital and liquidity on acceptable terms, or at all. If capital markets financing ceases to become available, or becomes excessively expensive, we may be forced to raise the rates we pay on deposits to attract more customers or we may become unable to pay our obligations as they become due. Any such increase in deposit rates or availability of capital markets funding could have a material adverse effect on our margins and liquidity.

If all or some of the foregoing risks were to materialize, this could have a material adverse effect on our financing availability and terms and, more generally, on our results, financial condition and prospects.

Downgrades in our credit ratings, those of any of our subsidiaries or those of Mexico could increase our cost of funding and negatively affect our ability to obtain additional funds, attract deposits or renew our maturing debt.

Our credit ratings are an important component of our liquidity profile. Among other factors, our credit ratings are based on the financial strength, credit quality and concentrations in our loan portfolio, the level and volatility of our income and profit, our capital adequacy and leverage, the quality of management, the liquidity of our balance sheet, the availability of a significant base of core retail and commercial deposits, and our ability to access a broad array of wholesale funding sources. In addition, our credit ratings are affected by an assessment of Mexican sovereign risk generally. For example, on July 6, 2022, S&P confirmed its rating of Mexico at BBB and, the next day, S&P confirmed its global rating of the Bank at BBB (negative outlook). Fitch confirmed the credit ratings for Mexico's sovereign debt at BBB-, confirming the Bank's rating at BBB (stable outlook) and, on July 8, 2022, Moody's downgraded the credit ratings for Mexico's sovereign debt from Baa1 to Baa2 and downgraded our Baseline Credit Assessment (BCA) to Baa2 from Baa1.

Our creditors and counterparties in derivative financial transactions are sensitive to the risk of a downgrade. Changes in our credit rating would increase our funding costs and our ability to obtain funds in the capital markets or through private creditors and could restrict our participation in certain activities. We cannot assure you that rating agencies will confirm our current credit ratings.

Further, our ability to compete effectively in the deposit market depends on several factors, including our financial stability reflected in our credit ratings. A downgrade in our credit rating could have an adverse effect on the perception of our financial stability and our ability to obtain deposits or other funds, which could significantly affect our business, financial condition and results of operations.

Intensified competition from banks and from non-bank financial institutions may adversely affect us, including our operational margin.

The Mexican financial sector is highly competitive. Our main bank competitors are Banco Nacional de México, S.A., or Citibanamex, a subsidiary of Citigroup, Inc., Banco Santander México, S.A., a subsidiary of Banco Santander Central Hispano, S.A., HSBC Mexico, S.A., a subsidiary of HSBC Holdings plc, Banco Mercantil del Norte, S.A., or Banorte, and Scotiabank Inverlat, S.A., or Scotiabank, a subsidiary of The Bank of Nova Scotia. In addition, we face increasing competition from non-bank financial institutions.

Financial institutions incorporated in the United States, Canada, member states of the European Union, Japan and other countries that have entered into a free trade agreement with Mexico are permitted to establish financial groups, banks, broker-dealers and other financial entities in Mexico. According to the CNBV, as of December 31, 2021, Mexico's 10 largest domestic banks, measured in terms of assets, held 83.4% of the total assets in the Mexican banking system. Five of these 10 banks are foreign-owned. At the end of August 2021, total assets of the multiple banking sector in Mexico were equal to Ps.10,874 billion, which represented a real annual decrease of 9.6%.

The SHCP has granted a number of banking licenses for the establishment and operation of several new banking institutions and is likely to continue granting banking licenses to new participants.

Further, certain of our competitors, such as Sofomes, financial technology institutions (*instituciones de tecnología financiera*, or "**fintech**"), among others, are not financial institutions and therefore, are not subject to the requirement to maintain certain levels of capital and reserves for loan losses. As a result, certain of our competitors may have advantages in conducting certain businesses and providing loans and the provision of other financial services. Moreover, competition is likely to increase as a result of the entrance of new participants into the financial services sector. For example, new smaller operators, including fintech companies, assisted by their operational flexibility and relatively lower capital requirements, have recently entered the market and compete with traditional banks.

In addition to legal and regulatory reforms in the Mexican banking industry, which have increased competition among banks and among other financial institutions, we believe that the Mexican government's commitments and policies of adopting market-oriented reforms in, and the liberalization of, the financial industry have also resulted in increased competition from traditional banking institutions. As financial sector reform continues, foreign financial institutions, some with greater resources than us, have entered and may continue to enter the Mexican

market either by themselves or in partnership with existing Mexican financial institutions and compete with us. There can be no assurance that we will be able to compete successfully with such domestic or foreign financial institutions or that increased competition will not have a substantial adverse effect on our business.

An increase in competition or a more aggressive competitive strategy adopted by our competitors could require us to lower certain interest rates or pay higher interest rates to depositors and creditors, in order to avoid losing clients to banks offering more attractive rates, which would increase our interest expense and could affect us.

In addition, the widespread adoption of new technologies to provide services, such as cryptocurrencies and payments, could require substantial expenditures to modify or adapt our existing products and services as we continue to grow our internet and mobile banking capabilities. Our customers may choose to conduct business or demand products in areas that may be considered speculative or risky. Such new technologies could negatively impact the value of our investments in bank premises, equipment and personnel for our branch network.

The persistence or acceleration of this shift in demand towards innovative payment methods and other new technologies may require changes to our retail distribution strategy, which may include closing and/or selling certain branches and restructuring our remaining branches and workforce. These actions may lead to increased expenditures to renovate, reconfigure or close a number of our remaining branches or to otherwise change our retail distribution channel. Furthermore, our failure to swiftly and effectively implement any such changes to our distribution strategy could have an adverse effect on our competitive position.

Our financial results are exposed to market risk and we are subject to fluctuations in interest rates and other market risks, which may significantly and adversely affect our profitability and results of operations.

Market risk refers to the probability of variations in our net interest income or in the market value of our assets and liabilities due to volatility of interest rates, inflation, exchange rates or equity prices. Changes in interest rates affect, among others, the following areas of our business:

- net interest income;
- the volume of loans originated;
- credit spreads;
- the market value of our securities portfolio;
- the value of our loans and deposits; and
- the value of our derivatives transactions.

Interest rates are sensitive to many factors beyond our control, including increased regulation of the financial sector, monetary policies and domestic and international economic and political conditions. Variations in interest rates could affect the interest earned on our assets and the interest paid on our borrowings, thereby affecting our net interest income, which comprises the majority of our revenue, reducing our growth rate and potentially resulting in losses. In addition, costs we incur as we implement strategies to reduce interest rate exposure could increase in the future (which, in turn, will impact our results). We monitor our interest rate risk using the net interest margin sensitivity, which is the difference between the return on our assets and the financial cost of our financial liabilities based on a one-year period and a parallel movement of 100 basis points (1%) in market interest rates.

Increases in interest rates may reduce the volume of loans we originate. Sustained high interest rates have historically discouraged customers from borrowing and have resulted in increased delinquencies in loans and deterioration in the quality of assets. Increases in interest rates could also reduce the propensity of our customers to prepay or refinance fixed-rate loans. Increases in interest rates could reduce the value of our financial assets and our profit or require us to record losses on sales of our securities or loans. We hold a substantial portfolio of debt securities and loans that refer to both fixed and floating interest rates.

Likewise, we could experience increased delinquencies in a low interest-rate environment if such an environment is accompanied by high levels of unemployment and recessionary conditions. We are also exposed to foreign exchange rate risk as a result of mismatches between assets and liabilities denominated in different currencies. Fluctuations in the exchange rate between currencies may negatively affect our earnings and the value of our assets and liabilities.

We are also exposed to equity price risk in our investments in equity securities in the banking book and in the trading portfolio. The performance of financial markets could cause adverse changes in the value of our investment portfolio. The volatility of world equity markets due to the continued economic uncertainty has had a particularly strong impact on the financial sector. Continued volatility could affect the value of our investments in equity securities and, depending on their fair value and future recovery expectations, could become a permanent impairment which would affect our results. To the extent any of these risks materialize, our net interest income or the market value of our assets and liabilities could be materially adversely affected, which would, in turn, adversely impact our business.

Market conditions have resulted, and in the future could result, in material changes to the estimated fair values of our financial assets. Negative fair value adjustments could have a material adverse effect on our operating results, financial condition and prospects.

Since 2008, financial markets have been subject to significant stress resulting in steep falls in financial asset values, particularly due to volatility in global financial markets and the resulting widening of credit spreads. We have material exposure to securities, loans and other investments that are recorded at fair value and are therefore exposed to potential negative fair value adjustments. Asset valuations in future periods, reflecting then-prevailing market conditions, may result in negative changes in the fair values of our financial assets and these may also translate into increased impairments. In addition, the value ultimately realized by us on disposal may be lower than the current fair market value. Any of these factors could require us to record negative fair value adjustments, which may have a material adverse effect on our operating results, financial condition or prospects.

In addition, to the extent that fair values are determined using financial valuation models, such values may be inaccurate or subject to change, as the data used by such models may not be available or may become unavailable due to changes in market conditions, particularly for illiquid assets, and particularly in times of economic instability. In such circumstances, our valuation methodologies require us to make assumptions, judgments and estimates in order to establish fair value, and reliable assumptions are difficult to make and are inherently uncertain and valuation models are complex, making them inherently imperfect predictors of actual results. Any consequential impairments or write-downs could have a material adverse effect on our operating results, financial condition and prospects.

The rules applicable to loan loss provisions have been modified over time.

In an effort to conform its regulations to the recommendations issued by the Basel Committee on Banking Supervision (the “**Basel Committee**”), since 2009, the Mexican government has implemented new rules regarding the methodology that Mexican banks must use to classify loans and to determine loan loss provisions. The new regulatory framework shifted away from an accrued losses methodology to an expected losses methodology. This new methodology has been implemented in phases, as follows:

- in 2009, for credit card loans;
- in 2011, for consumer, mortgage and government loans;
- in 2013, for commercial loans;
- in 2014, for loans to financial institutions;
- in 2015, for revolving consumer loans;
- in 2017, for term loans and mortgages, and accounting for loan losses and write-offs; and
- in 2018, for reserves and capital related to credit card loans.

Additionally, in 2015, the CNBV adjusted the rating methodology for non-revolving consumer and mortgage loan portfolios, which continues to be based on expected losses and incorporates new factors based on recent information on the industry’s performance. In addition to taking into consideration the borrower’s experience with the lender, the new methodology which took effect on June 1, 2017, also considers information provided by credit information companies about the credit behavior of the borrower with other creditors.

In the future, the CNBV could modify the accounting rules applicable to loan loss allowances, and further modify the methodology to measure credit risk or the requirements for loan loss provisions of other portfolios. Any such modifications could require us to increase our allowance for loan losses and, therefore, adversely affect our results of operations and financial position.

Many of our public sector loans are secured by cash flows from the Mexican federal government.

Most of our loans to Mexican states and municipalities are secured by such entities' right to receive participaciones federales (which are the resources allocated to them by the Mexican federal government) on the terms established in the *Ley de Coordinación Fiscal* and the covenants in the *Sistema de Coordinación Fiscal* and through the administrative collaboration in federal tax matters, and, in certain cases, with *aportaciones federales*. Any changes to Mexican laws regarding the use of *participaciones federales* as a source of payment for these loans or defects in the perfection of a security interest in such collateral could require amendments to our credit facilities and impact the credit risk of such facilities or the manner in which we operate with state and municipal governments in Mexico, which, in turn, could adversely affect our business, financial condition and results of operations

Furthermore, as *participaciones federales* are subject to the conditions of the Mexican economy and dependent on the Mexican federal government's tax collections, we cannot give any assurances that the participaciones federales will remain at their current levels or that they will be sufficient for the timely payment of the respective loans. If *participaciones federales* are reduced as a result of changes to Mexican laws or for any other reason, our results of operations and financial condition could be adversely affected. Moreover, there can be no assurance that the Mexican federal government will not apply retentions, compensations, reductions or adjustments to such *participaciones federales* and *aportaciones federales*. In addition, pursuant to the *Ley de Tesorería de la Federación*, the Mexican Treasury (*Tesorería de la Federación*) is responsible for the transfer of such participaciones federales and aportaciones federales in the corresponding bank accounts, and any delays in such transfers, whether due to technical or legal reasons or otherwise, affecting the cash flows securing our loans.

Defects in the perfection of our security interests or the granting of guarantees that are fraudulent to creditors by our borrowers could impair our ability to recover on our collateral. Accordingly, we cannot assure you that we will be able to realize the full value of our collateral, or timely realize the real value of collateral granted by Mexican state and municipal governments. If we are not able to realize the full value of our collateral, our results of operations and financial condition could be adversely and significantly affected.

The future of public sector lending in Mexico is uncertain.

Our business is subject to a continuously evolving regulatory regime of financial services laws, administrative actions and policies at the state level and at the federal level. In particular, due to certain high profile restructurings of Mexican state and municipal debt, in April 2016, the Mexican Congress approved certain amendments related to government sector lending. As a result, state and municipal governments are now subject to the Law of Financial Discipline for States and Municipalities (*Ley de Disciplina Financiera de las Entidades Federativas y los Municipios*), which seeks to organize and align the budgetary and financial instruments of the states, municipalities and their agencies to ensure sustainable management of local public finances. This law establishes general principles of financial discipline, and includes, among others, rules on the incurrence of indebtedness and a registry for such indebtedness, applicable to states and municipalities.

Additionally, although state and municipal public debt is regulated by the respective state laws in Mexico, there are certain provisions and limitations set forth in the Mexican constitution and other federal laws of Mexico (including in the Law of Financial Discipline for States and Municipalities), in particular in connection with the use of *participaciones federales* and *aportaciones federales* as a source of payment or as a public funding investment. In the past, there have been inconsistencies between state and federal law with respect to these uses of participaciones federales which have been addressed by the Mexican Supreme Court. Some of these judgments have had an adverse effect on the manner in which state and municipal loans have been granted. We cannot ensure that future judicial interpretations or resolutions, or policies implemented by the Mexican government, will not have an adverse effect on us, including the value of our government loan portfolio.

Our borrowers of public sector loans may claim privileges under Mexican law, and our ability to sue and recover may be limited.

In Mexico, foreclosure procedures may be subject to delays and administrative requirements that may result in lower levels of recovery on collateral compared to its value. Articles 9 and 49 of the Fiscal Coordination Law (*Ley de Coordinación Fiscal*) provide that *participaciones federales* and *aportaciones federales* used by states or municipalities may not be subject to attachment or liens, may not be assigned or subject to retention or withholding, except that they may be used to satisfy payment obligations of such states and municipalities, provided that they have the authorization of the state's congress and are registered with the SHCP in the Registry of Obligations and Loans of the States (*Registro de Obligaciones y Empréstitos de Entidades Federativas*).

In addition, Article 4 of the Mexican Federal Code for Civil Procedure (*Código Federal de Procedimientos Civiles*) does not allow attachment prior to judgment or attachment in and of execution upon a judgment by a Mexican court upon any of the assets of the federal, state or municipal governments. As a result, the ability of a creditor to enforce judgment against such governments or agencies, upon the occurrence of a default, may be limited, and this could materially affect our business, financial condition and results of operation. Furthermore, other factors such as defects in the perfection of our security interests, fraudulent transfers by borrowers or a reduction in the value or liquidity of the collateral may impair our ability to recover on our collateral. Accordingly, we can provide no assurance that we will be able to realize the full value of our collateral or realize it in a timely manner. Furthermore, many secured creditors may compete for collateral granted by state or municipal governments, as participaciones federales are available, on a pro rata basis, to secured creditors. As a result, lower recovery rates, asset quality deterioration and decreased value of collateral could have a material and adverse effect on our results of operations and financial condition.

We are subject to the laws of the CONDUSEF that could limit the activities of Mexican banks.

The Mexican National Commission for the Protection and Defense of Financial Service Users (*Comisión Nacional para la Protección y Defensa de los Usuarios de Servicios Financieros*, or the “CONDUSEF”) has broad powers to regulate our activities and the activities of other Mexican banks. The CONDUSEF is entitled to:

- order amendments to our standard form commercial banking documentation (such as loan and deposit agreements), if the CONDUSEF deems that the provisions included in such agreements are deemed as detrimental to users;
- publish information that may be detrimental to our business and reputation as well as any action taken against any Mexican banks;
- impose fines;
- order the attachment of our assets for the benefit of our customers; and
- initiate class actions for the benefit of groups of customers.

The CONDUSEF has broad discretionary authority to take the foregoing and other actions. Actions taken by the CONDUSEF against us, whether on an isolated or recurrent basis, could have a material impact on our business.

We are subject to capitalization requirements, and our failure to maintain required Capital Ratios could result in administrative actions or sanctions against us which could affect our ability to comply with our obligations, including those under our banking license and our debt obligations, including the Notes.

In December 2010, the Basel Committee reached an agreement on comprehensive changes to the capital adequacy framework, known as Basel III. A revised version of Basel III was published in June 2011. The Basel III framework includes heightened capitalization standards reflecting increases in both the quality and quantity of the regulatory capital base and enhancements to the risk coverage of the capital framework. Basel III capital standards also include capital buffers that must be maintained above the minimum capital requirements. These capital buffers include, on a fully phased-in basis, the Capital Conservation Buffer, a variable surcharge of up to 2.5% of total risk-weighted assets for certain global systemically important banks, a countercyclical buffer of up to 2.5% (during excessive credit growth periods) and a systemic entities supplemental buffer up to 3.5% of total risk-weighted assets, which may be deployed at the discretion of our regulators. The Basel III capital standards are expected to be implemented at the national level subject to certain transitional rules, with the principal requirements having been phased in from January 2013 to January 2019, and the remaining requirements to be fully effective by 2022. The CNBV issued amendments to the Mexican Capitalization Requirements, which became effective on January 1, 2013 and implemented Basel III in all relevant respects.

As a result of these amendments, as of May 2016, as a Grade IV bank of systemic importance, we are required by the CNBV to constitute a Systemically Important Bank Capital Supplement (as defined herein) of 1.50% of our Tier 1 Capital. The Systemically Important Bank Capital Supplement was required to be implemented over a four-year period in four equal parts from December 2016. As of December 31, 2022, our Capital Supplement was fully implemented in compliance with the CNBV requirements. The CNBV reconfirmed our status as a Grade IV bank of systemic importance on May 27, 2022. Any amendments to the Capital Requirements or their implementation could have a material adverse effect on our business financial condition or results of operations.

Currently, the minimum Capital Ratios required to be classified as Class I are (i) 10.5% in the case of the Total Net Capital (capital neto), which includes the Capital Conservation Buffer, (ii) 8.5% in the case of Tier 1 Capital (*capital básico*), which includes the Capital Conservation Buffer, and (iii) 7.0% in the case of Fundamental Capital (*capital básico fundamental*), which includes the Capital Conservation Buffer, plus, in each case, any other applicable Capital Supplement.

In addition to the changes to the capital adequacy framework described above, the Basel Committee also published its global quantitative liquidity framework, comprising the Liquidity Coverage Ratio (the “**LCR**”) and Net Stable Funding Ratio (“**NSFR**”) metrics, with the objectives of (1) promoting the short-term resilience of banks’ liquidity risk profiles by ensuring they have sufficient high-quality liquid assets to survive a significant stress scenario; and (2) promoting resilience over a longer term by creating incentives for banks to fund their activities with more stable sources of funding on an ongoing basis. The LCR was subsequently revised by the Basel Committee in January 2013, which included an amended definition of high-quality liquid assets and a revised timetable for the phase-in of the standard from 2015 to 2019, as well as some technical changes to some of the stress scenario assumptions. The final framework to be established in Mexico could differ from Basel III in certain respects. The LCR was implemented in December 2015. In October 2014, the Basel Committee published the final NSFR, which established a standard for banks to maintain a stable funding profile in relation to the composition of their assets and off-balance sheet activities. The first effective date of the NSFR under the Basel Committee standard was January 1, 2018. A proposed disclosure standard related to the NSFR was published in December 2014. During 2015, the CNBV and *Banco de México* modified general regulatory dispositions related to operational risk, counterparty and market risk and credit risk. As of the date of this Offering Memorandum, the CNBV and *Banco de México* have not issued a final definition of the NSFR based on the guidelines approved by the Basel Committee in October 2014.

The effective management of our capital position is important to our ability to operate our business, continue to grow organically and to pursue our business strategy. However, as these changes to the legal framework of our capitalization and other changes are implemented, or as future changes are considered or adopted that limit our ability to manage our balance sheet and capital resources effectively or to access funding on commercially acceptable terms, we could experience a material adverse effect on our financial condition and regulatory capital position. In addition, the implementation and maintenance of enhanced liquidity risk management systems could result in significant costs, and more stringent requirements to hold liquid assets could significantly affect our credit business as more funds could be required to acquire or maintain a liquidity buffer, thereby reducing our future profitability.

If the SHCP determines, after an evaluation, that we have not complied with applicable requirements to our credit activity, we may be forced to lend to certain sectors of the economy or to certain persons that may not meet our credit quality standards, that we may not know or that may entail unacceptable credit risks, which, in turn, may impact our financial condition, results of our operations and the quality of our assets. Moreover, if we were to fail any evaluation, publicity surrounding such failure may impact our reputation, which, in turn, may adversely impact our ability to conduct business in Mexico and our financial condition and results of operations.

Any legislative or regulatory actions and any required changes to our business operations resulting from such legislation could result in significant loss of revenue, limit our ability to pursue business opportunities and affect the value of our assets, require us to increase our rates and therefore reduce demand for our services and products, impose additional costs on us and otherwise adversely affect our businesses. Accordingly, there can be no assurance that future changes in legislation or in their interpretation or application will not adversely affect us.

We are subject to extensive regulation and supervision that could result in intervention, sanctions and other penalties by our regulators and supervisors, which could harm our reputation or have a material adverse effect on our results of operations, financial condition or prospects.

We are subject to comprehensive regulation and supervision by Mexican regulatory authorities and, in respect of our Texas Agency, certain U.S. regulatory authorities. The Mexican regulatory authorities include *Banco de México*, the CONDUSEF, the CNBV, the IPAB and the SHCP. The Mexican federal administration that took office in December 2018 could implement new policies or interpretations to existing laws and regulations or propose changes to such regulations that could have an adverse effect on our business, financial condition and results of operations. See “The Mexican Financial Industry.” These regulatory authorities have broad powers to adopt rules that could affect our capitalization, organization and operations, including changes to capital adequacy and reserve requirements, requirements relating to the maintenance of liquidity ratios, compliance with rules relating to secrecy, the imposition of anti-money laundering measures and the authority to regulate the terms of products, including the interest rates we charge and the fees we collect in exchange for services. Moreover, Mexican and U.S. financial regulatory authorities

have broad powers to enforce legal requirements, including imposing fines, requiring that new capital be contributed, inhibiting us from paying dividends to our shareholders or paying bonuses to our employees, or revoking licenses to operate our business (including our banking or broker-dealer licenses).

Furthermore, if we face significant financial problems or become insolvent or in danger of becoming insolvent, Mexican banking authorities would have the power to take over our management and operations. The regulatory burden of our business and commercial operations affect our financial returns.

The regulators seek to maintain the safety and soundness of Mexican financial institutions with the aim of strengthening the protection of customers and the financial system. The continuing supervision of financial institutions is conducted through a variety of regulatory tools, reports, visits to firms and regular meetings with management to discuss issues such as performance, risk management and strategy. In general, regulators in Mexico have an outcome-focused approach that involves more proactive enforcement and more punitive penalties for infringement, including intervening in and restricting the payment of dividends or bonuses to employees. As a result, we face significant high levels of supervision, resulting in increasing internal compliance costs and supervision fees (*derechos*), and, in the event of a breach of our regulatory obligations, we could face regulatory fines that could be significant.

Some of our regulators focus on the protection of users of financial services, including on the design and operation of products, the behavior of customers and the operation of markets. Applicable legislation may prevent institutions such as ours from providing products to customers until changes are made to address the regulators' views on potential detriment to users of financial services. Regulations cover several aspects of our business, including the training, authorization and supervision of personnel, systems, processes and documentation. If we fail to comply with applicable legislation, we could face sanctions, penalties, fines or other regulatory actions imposed by the authorities, including the revocation of our authorization and the intervention in our operations, any of which may have an adverse impact on our business, financial condition or results of operations.

Furthermore, customers of financial institutions, including our customers, could seek compensation if they suffer loss as a result of an offered product, or on the occasion of the incorrect application of the terms and conditions of a particular product. Given the inherent unpredictability of litigation and judgments by the authorities, it is possible that an adverse outcome in some matters could harm our reputation or have a material adverse effect on our results of operations and financial condition and prospects as a result of any penalties imposed or compensation awarded, together with the costs of defending such an action, thereby reducing our profitability.

We are subject to several laws regarding our organization, operations, credit and funding activities, capitalization, transactions with related parties, and taxation and other matters. These laws impose several requirements on us, including the maintenance of minimum credit risk-based, market risk-based and operating risk-based capital levels and allowance for impairment losses, prohibited activities, regulation of our business practices and practices relating to risk-profile and sales of securities, regulation on money laundering, regulation on derivatives, commissions charged, application of accounting regulations and tax obligations. Many of the applicable laws have changed extensively in recent years and some have had a negative impact on our business. There may be future changes in the legal system or in the interpretation of the laws, which could have a relevant adverse effect on our business.

Likewise, the laws, and policies to which we are subject, could be changed at any time, and the interpretation and the application of those laws and regulations by regulators may also be subject to change. See "The Mexican Financial Industry."

Any legislative or regulatory actions and any required changes to our business operations resulting from such legislation could result in significant loss of revenue, limit our ability to pursue certain business opportunities, affect the value of our assets, require us to increase our rates and, therefore, reduce demand for our products and impose additional costs on us. Accordingly, we cannot assure you that future changes in legislation or in their interpretation or application will not adversely affect us.

Changes in legislation and regulations may increase our compliance costs and limit our ability to pursue certain business opportunities and offer certain products and services to our clients. Since certain of the banking laws, including the norms implementing Basel III, have been recently adopted in Mexico, the application of those laws and related regulations to the operations of financial institutions is evolving.

Furthermore, pursuant to Mexican case law (*jurisprudencia*) issued by the Mexican *Pleno en Materia Penal del Primer Circuito* of the Mexican Federal Judicial Power (*Poder Judicial de la Federación*) in June 2019, which is binding on courts in the first circuit (*tribunales colegiados en el primer circuito*) and only in respect of criminal

matters in which a banking institution acts as auxiliary authority to immobilize or seize bank accounts, a Mexican banking institution may be deemed as responsible authority (*autoridad responsable*) for purposes of an amparo suit (*juicio de amparo*) under circumstances that may imply that certain actions taken by a Mexican banking institution may be suspended or revoked, among other potential results. Even if, pursuant to Mexican law and related case law, a Mexican banking institution is only deemed as responsible authority when (i) such institution acts in a manner equivalent to a governmental authority, (ii) affects rights of individuals, and (iii) its functions are determined by law, such case law permits interpretation and subjective elements decided by each judge. The characterization of a Mexican banking institution, under certain circumstances, as a responsible authority, may subject such institution to the provisions of the Mexican *Ley de Amparo*, the effects and consequences of which are currently unknown, and may increase the regulatory charges applicable to, and affect the activities of the Bank. Recent non-binding Mexican judicial criteria (*tesis aisladas*) provide that, if a banking institution is acting in its ordinary course of business, it cannot be deemed as a responsible authority under the Mexican *Ley de Amparo*.

In addition, while the Bank operates as a stand-alone subsidiary within the BBVA Group, the Bank's reputation could be damaged by the actions, behavior or performance of other members of the BBVA Group, their employees, affiliates, suppliers, intermediaries, counterparties or customers, or those of the financial services industry generally. The actions of any such persons or any investigations conducted by any governmental authority with respect to such actions could damage our reputation and adversely affect the confidence of our clients, credit rating agencies, regulators, creditors and other parties, which could have an adverse effect on our business, financial condition and results of operations.

We are subject to litigation and other legal, administrative and regulatory proceedings.

We are party to various litigation and other legal proceedings related to claims arising in the normal course of business. Litigation is subject to uncertainties and adverse judicial or administrative decisions or arbitration awards could be issued against us in these proceedings. In addition, the current regulatory environment, which has resulted in increased oversight, combined with uncertainty about the evolution of the regulatory regime, could generate significant compliance costs and subject us to regulatory compliance actions, fines, and penalties.

We cannot assure you that these or other legal, administrative or judicial proceedings will not adversely affect our ability to operate in the way we expect or that they will not adversely affect our results of operations and financial condition should we obtain any adverse judicial or administrative decisions, or arbitration awards.

Our business activities take place in a highly regulated sector. Mexican banking regulators and other authorities, including antitrust and tax authorities, have increased their supervision, and the frequency and amount of fines and assessments have increased. Although we intend to vigorously defend ourselves when proceedings are initiated or fines are imposed by authorities, we cannot assure you that we will be successful in that defense. As a result, we may be required in the future to pay penalties that could be significant, which could adversely affect us.

There are various investigations, administrative proceedings, legal actions and claims pending or related to us, in the ordinary course of business. In the opinion of our management, none of these investigations, procedures, actions or claims will have an adverse effect on our business; however, we cannot predict the outcome of any of these investigations, procedures, actions, or claims, or the impact on our business, financial position, or results of operations.

The Bank and certain of its affiliates, including BBVA, S.A. and BBVA Securities Inc., as well as other international financial entities, were named as defendants in a class action filed in the District Court for the Southern District of New York in the United States of America, claiming that the defendant banks were part of an alleged collusion with respect to the purchase and sale of Mexican government bonds. This class action is based on the investigations started by COFECE (*Comisión Federal de Competencia Económica*), and the plaintiffs sought to obtain an indeterminate amount of economic compensation. In September 2019, the District Court dismissed the claim. However, in December 2019, the plaintiffs filed a modified version of their original claim in which they named the Bank as defendant, but not the remainder of the entities that were named in the original complaint. In November 2020, the District Court dismissed the modified version of the claim on the grounds of lack of personal jurisdiction of the court over the defendants. In May 2021, the plaintiffs filed a motion for reconsideration of the dismissal of the claim. On March 30, 2022, the District Court rejected the motion for reconsideration and confirmed its decision of dismissing the suit. On September 15, 2022, the plaintiffs announced that they were going to appeal such determination, which they did in December 2022 in the United States Court of Appeals for the Second Circuit. The Bank filed its reply on February 6, 2023, and currently, the legal term for plaintiffs to respond is pending. Following such response, we expect a hearing to be scheduled on a date to be determined.

Current loan loss reserve requirements in Mexico differ from those in the United States and other countries.

Except for loans granted to the public sector, *Banco de México*, the IPAB and certain multilateral organizations and public development banks, we are required to classify each loan or type of loan according to an assessment of risk based on criteria set forth in Mexican bank legislation and to establish corresponding reserves. The criteria to establish reserves include both qualitative and quantitative factors. Mexican banking legislation relating to loan classification and determination of loan loss reserves are different and could be less stringent than those applicable to banks in the United States and certain other countries. Current rules approved by the CNBV allow banks to use additional objective and subjective factors in determining loan loss reserves. If the rules applicable in the United States were applicable in Mexico today, the balance of our loan loss reserves could be higher than those we currently record.

We believe our loan loss reserves are adequate to cover all known or knowable losses in our loan portfolio. We may, however, be required to increase our loan loss reserves in the future. Any required increases in our reserves could adversely affect us, including our results of operations, financial condition and our ability to pay our debt, including the Notes.

Liquidity and funding risks could adversely affect us.

Some Mexican banks have suffered severe liquidity problems at different times, particularly in connection with refinancing short-term U.S. dollar liabilities in the international capital markets.

We anticipate that our customers will continue, for the foreseeable future, to make short-term deposits (particularly demand deposits and short-term time deposits), and we intend to maintain our emphasis on the use of banking deposits as our principal source of funding. The short-term nature of this funding source could cause liquidity problems for us in the future if deposits are not made in the amounts we expect or such are not renewed.

We cannot assure you that the Mexican banking system or we will not be subject to liquidity or funding problems in the future. While we expect to be able to pay or refinance our liabilities, we cannot assure you that we will be able to repay our liabilities or refinance our liabilities on favorable terms.

Currency and interest rate risks may adversely affect us.

Regarding the Structural Balance of interest and exchange rates, there is a broad set of metrics, as well as an evaluation of different scenarios. Among others, Economic Value and Financial Margin sensitivities are calculated in the event of parallel movements in the curves of +/-100 basis points in the local curve and Dollar, according to the methodology authorized by the Risk Committee. An alert scheme has been established for the aforementioned metrics and in the event of exceeding the alert limits, mitigation measures have been established.

To monitor the risk of the Structural Balance of interest and exchange rates, the Assets and Liabilities Committee is the executive body in charge. This 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 Risk Committee delegated by the Board. Starting on June 25, 2021, *Banco de México* began a rate hiking cycle that increased the reference rate 700 basis points to a level of 11.00% as of February 10, 2023. The effects of the discontinuation, on December 31, 2021, of the London Interbank Offered Rate (“**LIBOR**”) and its replacement with the Secured Overnight Financing Rate (“**SOFR**”) are not expected to have a material impact. However, at a systems level, necessary adjustments must be made to operate with the new reference rates and the defined methodologies, adapting the current processes to these changes. From an accounting point of view, the Bank expects impacts on results gradually as the new discount curve is adopted by the different counterparties and eventually in the estimation curves, such impacts will be mainly originated by the change of mark-to-market in the affected financial instruments, which are not expected to be material either.

Failure to successfully implement and continue to improve our credit risk management system could have a material adverse effect on our business, financial condition and results of operations.

As a commercial bank, credit risk is one of the main types of risks inherent to our business. We may not be able to improve our credit risk management system so that it can function effectively. For example, an important feature of our credit risk management system is to employ an internal credit rating system to assess the particular risk profile of a customer. As this process involves a detailed analysis of the customer or credit risk, taking into account both quantitative and qualitative factors, it is subject to human error. In exercising their judgment, our employees may not always be able to assign an accurate credit rating to a customer or credit risk, which could result in a higher

exposure to credit risks than that indicated by our risk rating system. In cases where we rely on third party information to assess credit risk, we cannot assure you this information is accurate. In addition, we have been trying to refine our credit policies to address potential risks associated with particular industries or types of customers, such as affiliated entities and group customers. However, we may not be able to timely detect these risks before they occur or, due to the limitations of the tools that we have, our employees may not be able to effectively implement them, which could increase our credit risk. Failure to effectively implement, follow or adjust our credit risk management system could have an adverse effect on our business or financial condition.

High levels of past due portfolio or insufficient loan loss reserves to cover loan losses, may have a material adverse effect on our business, financial condition or results of operations.

Past due portfolio or low credit quality loans may negatively impact our results of operations. We cannot assure you that we will be able to effectively control and reduce the number of impaired or past due loans in our portfolio. In particular, the principal balance of our reported past due loans could increase in the future as a result of growth in our loan portfolio balance or factors beyond our control, such as the impact of macroeconomic trends, internal and external political events affecting Mexico or events affecting certain industries.

On March 26, 2020, the CNBV, in order to mitigate the economic effects of the COVID-19 outbreak, announced certain special temporary measures applicable to banking institutions, which concluded in the first quarter of 2021, including, among others, the total or partial deferral of principal and/or interest payments by debtors of consumer, housing and commercial loans that classify as “*créditos vigentes*,” without the requirement of classifying loans as past due and requiring the creation of reserves. Any other measures to be taken by the Mexican federal government with respect to the COVID-19 outbreak may adversely impact our business and financial condition.

In addition, while we believe our current loan loss reserve is adequate to cover all losses in our loan portfolio, our current loan loss reserves could prove to be inadequate to cover an increase in the amount of past due loans or any future deterioration in the overall credit quality of our portfolio. As a result, if our credit quality deteriorates, we may have to increase our loan loss reserves.

Moreover, there is no precise method for predicting loan and credit losses, and we cannot assure you that our loan loss reserves will be sufficient to cover losses. Failure to control the level of our past due loans could have a material adverse effect on our business, financial condition and results of operations.

Our loan and investment portfolios are subject to risk of prepayment, which could have a material adverse effect on our business.

Our loan and investment portfolios are subject to the risk of prepayment as a result of the right of a borrower or issuer to pay its loan prior to maturity. Typically, in a downward interest rate environment, prepayment activity increases, reducing the weighted average lives of our interest earning assets, and such activity could have a relevant adverse effect on our business.

Prepayment risk also might have a significant adverse impact on our credit card and mortgage loans since prepayments could also shorten the weighted average life of these loans. Prepayment risk is inherent in our commercial lending activities and an increase in prepayments could have a material adverse effect on our business.

Our revenues from commissions could be reduced.

The commissions we charge from the diverse banking and other financial products and services that we provide represent an important source of our revenues. Market downturns have led, and will probably continue leading, to a decline in the volume of transactions we make for our customers and, therefore, to a decline in our revenues. In addition, because the commissions that we charge for managing our clients’ portfolios are in many cases based on the value or performance of those portfolios, a market downturn that reduces the value of our clients’ portfolios or increases the withdrawals would reduce the revenues we receive from our private banking and custody businesses.

Moreover, risk tolerance of our clients to non-deposit investments such as stocks, debt instruments and mutual funds, could decrease, which would adversely affect our commission income.

Even in the absence of a market downturn, our revenues from fees may also be reduced by legislative changes affecting this business model of the financial system.

We could be adversely affected if our customers face financial problems.

The volatility of the market and the economic recession (as a result of, among others, the increases in inflation rates, as well as the lingering consequences of the COVID-19 pandemic) has significantly and adversely affect the liquidity, credit ratings, businesses or financial condition of our borrowers, which could in turn increase our past due loan ratios, affect our financial assets and result in decreased demand for borrowings in general. In addition, the tolerance of our customers to the risk related to non-deposit investments that we offer could decrease significantly, which would adversely affect our commission income. We could also be adversely affected by the negative effects of increased regulatory requirements relating to our clients, due to the high costs associated with regulatory compliance.

Potential market turmoil and economic recession could materially and adversely affect the liquidity, credit ratings, businesses and/or financial conditions of our borrowers. In 2022, inflationary pressures intensified due to a number of factors, including the revitalization of demand for consumer goods, labor shortages, supply chain issues and the rise of the prices of energy, oil, gas and other commodities exacerbated by the war in Ukraine. In an effort to contain inflation, central banks, including Banco de México, have increased interest rates. These interest rate increases contributed to a slowdown of the global economy. These or other conditions causing market turmoil or economic recession in the future could increase our non-performing loan ratios, impair our loan and other financial assets and result in decreased demand for borrowings and deposits in general. Macroeconomic conditions in 2022 also led to significant volatility in financial markets. As a result, our customers have decreased, and may in the future decrease their risk tolerance to non-deposit investments such as stocks, bonds and mutual funds, which would adversely affect our fee and commission income. We may also be adversely affected by the negative effects of the heightened regulatory environment on our customers due to the high costs associated with regulatory compliance and proceedings. Any of the conditions described above could have a material adverse effect on our business, financial condition and results of operations.

We are exposed to risks faced by other financial institutions, and in particular, financial institutions in Europe.

On a daily basis we transact with counterparties in the financial services industry, including brokers and dealers, commercial banks, investment banks, mutual funds, hedge funds and other institutional clients. Defaults by, and even rumors or questions about the solvency of, certain financial institutions and the financial services industry in general have led to liquidity problems and could lead to losses or defaults by other financial institutions. Many of the routine transactions we enter into expose us to significant credit risk in the event of default by one of our significant counterparties. For example, in 2016, the decision made in the British referendum on June 23, 2016 to exit the European Union (“**Brexit**”) caused a sharp increase in volatility as it opened up the possibility of major nations withdrawing from the European Union. A default by a significant financial counterparty, or liquidity problems in the financial services industry generally, could have a material adverse effect on our business, financial condition, results of operations or prospects.

We may be required to make significant contributions to the IPAB.

The IPAB manages the bank savings protection system in Mexico. In accordance with Mexican law, banks are required to make monthly contributions to the IPAB to support its operations that are equal to 1/12 of 0.004% (the annual rate) multiplied by the average of certain liabilities minus the average of certain assets. Mexican authorities impose regular assessments on banking institutions covered by the IPAB. We contributed Ps.7,024 million, Ps.6,392 million and Ps.6,303 million to the IPAB for the years ended December 31, 2022, 2021 and 2020, respectively. If the IPAB’s reserves are insufficient to manage the Mexican bank savings protection system and provide the necessary financial support required by troubled banking institutions, the IPAB has the right to require extraordinary contributions of participants in the system. Such extraordinary contributions could increase our expenses and could have a material adverse effect on our businesses.

We may need additional capital in the future, and may not be able to obtain such capital on acceptable terms, or at all.

To be able to grow, remain competitive, enter into new businesses, or meet capital adequacy requirements, we may require new or additional capital in the future. Moreover, we may need to obtain additional capital if we suffer any significant losses in any of our activities. Our ability to obtain additional capital in the future is subject to various situations, including:

- public health and economic consequences in Mexico and elsewhere of the COVID-19 pandemic;

- our future financial position, results of operations and cash flows;
- any necessary government regulatory approvals;
- general market conditions for capital-raising activities by commercial banks and other financial institutions; and
- economic, political and other conditions in Mexico and elsewhere.

We may not be able to obtain additional capital in a timely manner or on acceptable terms, if at all, which could affect us, including our ability to pay our debt, including the Notes.

We are subject to market, operational and other related risks associated with our derivative financial transactions that could have a material adverse effect on our business.

We enter into derivative financial transactions for trading and hedging purposes. We are subject to market and operational risks associated with these transactions, including basis risk (the risk of loss associated with variations in the spread between the asset yield and the financing or hedge cost) and credit or default risk (the risk of insolvency or other inability of the counterparty to perform its obligations thereunder, including providing sufficient collateral).

In addition, Mexican courts have had limited relevant experience with such derivative financial transactions. As a result, the outcome of derivatives disputes being decided through the Mexican judicial system is not fully predictable.

Our ability to adequately monitor, analyze and report derivative transactions continues to depend, to a great extent, on our information technology systems and, accordingly, any failure in our systems increases the risks associated with these transactions.

The retail banking market is exposed to macroeconomic and other situations that could negatively impact household income and consumer demand, and a downturn in the economy could result in increased loan losses.

One of our main strategies is to focus on the retail banking sector and to grow our retail loan portfolio rapidly. Demand for the loan products we offer depends on economic conditions, including GDP growth rates, inflation, unemployment, the cost of energy and other supplies, the ability of consumer credit, interest rates, consumer confidence, retail trends and exchange rates. These economic conditions are beyond our control. If economic conditions worsen, demand for our products, including our consumer products, could decline. A decline in demand for consumer goods would also reduce demand for our durable goods loans and would also likely reduce demand for our payroll loans, to the extent those loans are used to finance consumer purchases. As a result, our loan portfolio may become increasingly vulnerable to macroeconomic situations that could negatively impact the household income of our retail customers and result in increased loan losses.

In addition, natural disasters, like the earthquakes that affected Mexico in 2017, or the outbreak of contagious diseases and pandemics, such as the COVID-19 pandemic, could also affect our customers. Furthermore, because the penetration of bank lending products in the Mexican retail sector historically has been low, there is little basis on which to evaluate how the retail sector will perform if an economic crisis arises, such as a recession or a significant peso devaluation. Consequently, our historical loan loss experience may not be indicative of the performance of our loan portfolio over time.

Natural disasters and weather conditions may adversely affect us.

Our operations and those of our customers could be located in areas subject to natural disasters and severe weather conditions. Natural disasters or severe weather conditions could increase our operating costs or the operating costs of our customers. Moreover, if our insurance or our clients' insurance does not fully cover the losses resulting from these events, our income, liquidity or capital resources could be adversely affected. Some experts believe that climate change resulting from global warming could lead to an increase in the frequency and intensity of natural disasters in the future. Our operations have insurance that cover damage caused by natural disasters, accidents and other similar events. However, we cannot assure you that the losses caused by damages to our operations or to the operations of our clients will not exceed the limits established in the corresponding insurance policies.

Our continuing focus on individuals and small and medium-sized companies (SMEs) could lead to higher levels of past due loans and subsequent charge-offs.

We are continuing to lend and provide other services to individuals and to small and medium-sized companies. As of December 31, 2022, small and medium-sized companies represented 13.0% of our Retail Network lending portfolio, with a total of 748,064 customers in this business unit. As individuals and small and medium-sized companies are more likely to be adversely affected by a downturn in the Mexican economy than large companies, the balance of our past due loans could increase, which could result in higher allowance for loan losses.

There can be no assurance that the levels of past due loans and subsequent charge-offs will not be materially higher in the future.

We engage in transactions with our parent GFBM and its subsidiaries or affiliates.

We cannot assure you that transactions between us and our parent GFBM or any of its or our subsidiaries or affiliates have been or will be conducted on terms equal to those of other transactions. For example, occasionally we enter into agreements, including service agreements, with our affiliates. We have entered into service agreements with our affiliates, including with BBVA Servicios Corporativos México, S.A. de C.V. for the distribution of certain banking products, BBVA Seguros México, S.A. de C.V., Grupo Financiero BBVA México, for the sale of insurance policies and Casa de Bolsa BBVA México, S.A. de C.V., Grupo Financiero BBVA México, to offer brokerage services.

Applicable laws to companies that offer securities to the public and financial groups and institutions, as well as our bylaws, provide for several procedures designed to ensure that the transactions entered into with or among companies in our financial group are carried out on an arm's-length basis, including the requirement that our Board of Directors approve such transactions and that transactions with affiliates do not exceed certain thresholds.

We are likely to continue to engage in transactions with our parent and its and our subsidiaries or affiliates, and no assurance can be given that we will do so on an arm's-length basis. In addition, future conflicts of interest between us and GFBM or any of its or our subsidiaries or affiliates could arise. See "Related Party Transactions."

While in the past the CNBV has not disagreed with our determinations that the terms of these transactions are "substantially on market conditions," we cannot assure you that the CNBV will agree with our future determinations to that effect.

Resources and business opportunities could be channeled, to other entities within the GFBM Group.

We are the principal subsidiary of GFBM. GFBM could, at any time, devote more resources or divert business opportunities to other subsidiaries of GFBM that could directly or indirectly compete with us, as well as transfer certain operations of other subsidiaries of GFBM to us, on grounds of capital efficiency, regulatory constraints or other criteria. Any diversion of our resources or business opportunities to other subsidiaries of GFBM, or the transfer to us of unprofitable operations of other subsidiaries of GFBM, may have an adverse effect on us.

Cyber-attacks or other breaches of network or information technology security could have an adverse effect on our business.

Our technologies, systems, networks, and those of our business partners could be the target of cyberattacks or information security breaches that could result in the unauthorized release, misuse or loss of confidential information, as well as a disruption of our business operations. Cyber-security risks for financial institutions have significantly increased because of the proliferation of new technologies, the use of the internet and telecommunications technologies to conduct financial transactions, and the increased sophistication and activities of organized crime, hackers, terrorists and other parties. Our business is highly dependent on our technology infrastructure and that of our service providers, and we are not immune to attacks against our or their network or systems. Although we have not experienced any significant loss as a result of cyber-attacks, there can be no assurance that we will not be the target of cyber-attacks in the future that could adversely affect our operations or financial condition. As cyber threats continue to evolve, we could have to incur additional expenses to enhance our protective measures or to remediate any information security vulnerability. If we are not able to effectively manage our cybersecurity risk, including as a result of failing to update our systems and processes in response to new threats, this situation could hold us responsible to pay compensation, lead us to lose customers, or assets, or to become the object of penalties and fines, any of which could have a material adverse effect on our reputation, results of operations and financial condition.

Future mergers or acquisitions of other institutions could disrupt our operations.

In the past we have acquired some companies and it is possible that we conduct further mergers or acquisitions. See “The Bank—Our History” Such mergers and acquisitions could lead to difficulties and delays in the integration of acquired companies, or delays in receiving regulatory approvals that could divert our management’s attention and human resources. Any future acquisitions could require us to operate in new markets and may subject us to regulation in other countries with which we have not had prior experience. Such transactions are likely to entail risks, including unknown or unforeseen liabilities relating to the acquired assets or business, difficulty in integrating and managing new or combined operations, labor unrest and loss of key personnel.

We are subject to anti-corruption laws in Mexico and to similar laws of other jurisdictions.

In July 2016, as part of the historic constitutional reform which created the National Anticorruption System (*Sistema Nacional Anticorrupción*, or the “SNA”), the Mexican Congress approved a group of laws that comprises the legal framework that aims to ensure the implementation of the public strategies and policies for fighting corruption and impunity. The objective of this reform is to achieve full coordination of efforts from the federal, state and municipal governments, and the government of Mexico City, in order to prevent, investigate and punish administrative violations and corrupt practices by public officers, companies and individuals.

For the operation of the SNA, the Mexican Congress approved the General Law on the National Anticorruption System (*Ley General del Sistema Nacional Anticorrupción*), the General Law on Administrative Accountability (*Ley General de Responsabilidades Administrativas*) and the Organic Law of the Federal Tribunal of Administrative Justice (*Ley Orgánica del Tribunal Federal de Justicia Administrativa*). In addition, it approved the Law on Auditing and Accountability of the Federation (*Ley de Fiscalización y Rendición de Cuentas de la Federación*) and amendments on internal controls of the federal executive branch to the Organic Law of Public Administration (*Ley Orgánica de la Administración Pública Federal*), to the Fiscal Coordination Law (*Ley de Coordinación Fiscal*) and to the General Law for Governmental Accounting (*Ley General de Contabilidad Gubernamental*). The SNA requires us to enhance internal controls and audits, as a means to reduce the exposure to liability.

We cannot assure you that our internal control policies and procedures will protect us from reckless or criminal acts committed by our employees, directors, officers, shareholders, affiliates or agents. Violations of these laws, or allegations of such violations, could disrupt our business and could have a significant adverse effect on our business.

Any deterioration of labor relations with our employees could have a material adverse effect on our business, financial condition and results of operations.

We depend on intensive use of human resources in our activities. As of December 31, 2022, approximately 34.12% of our employees were unionized. In the future we could incur higher ongoing labor costs and disruptions in our operations in the event of a strike or other work stoppage. In addition, their employment contracts are regulated by collective bargaining agreements. Any collective bargaining agreement executed in the future could have shorter terms than our previous agreements and, if we are not able to negotiate collective bargaining agreements on acceptable terms to us, we could be subject to a significant increase in labor costs, deterioration of employee relations, or strikes, which could have a material adverse effect on us and on the market price of the Notes.

Our businesses rely heavily on data collection, processing and storage systems, the failure of which could affect our risk management and internal control systems.

As transaction processes have become increasingly bulky and complex in recent years, our main businesses are highly dependent on our ability to timely collect and process a large amount of financial and other information across numerous and diverse markets and products at our various branches. The proper functioning of financial control, accounting or other data collection and processing systems is critical to our business and to our ability to compete effectively. A partial or complete failure of any of these primary systems could materially and adversely affect our decision-making process and our risk management and internal control systems, as well as our timely response to changing market conditions.

Furthermore, we are dependent on information systems in order to process transactions, respond to customer inquiries on a timely basis and maintain cost-efficient operations. We could experience operational problems with our information systems as a result of system failures, viruses, computer “hackers” or other causes. Any important disruption or the slowdown of our systems could cause information, including data related to customer requests, to be lost or to be delivered to our customers with delays or errors, which could reduce demand for our services and products

and could significantly and adversely affect our customers which, in turn, could have a material adverse effect on our reputation, financial condition and results of operations.

Any failure to effectively improve or upgrade our information technology infrastructure and management information systems in a timely manner could have an important adverse effect on our business.

Being able to be competitive depends in part on our ability to upgrade our information technology on a timely and cost-effective basis. We must continually make significant investments and improvements in our information technology infrastructure. On the other hand, we could experience difficulties in upgrading, developing and expanding our information technology systems quickly enough to accommodate our growing customer base while still ensuring the security of our information technology infrastructure. Any failure to effectively improve or upgrade our information technology infrastructure and management information systems in a timely manner could materially adversely affect us.

Our Audited Financial Statements included elsewhere in this Offering Memorandum have been prepared and are presented in accordance with Mexican Banking GAAP, which is significantly different from U.S. GAAP and IFRS.

Our Audited Financial Statements included elsewhere in this Offering Memorandum have been prepared and are presented in accordance with Mexican Banking GAAP. Significant differences exist between Mexican Banking GAAP and U.S. GAAP and Mexican Banking GAAP and IFRS, which are material to our Audited Financial Statements and other financial information included elsewhere in this Offering Memorandum. We have made no attempt to identify or quantify the impact of those differences in this Offering Memorandum. In making an investment decision, you must rely upon your own examination of us, the terms of this offering and the financial information included in this Offering Memorandum. You should consult your own professional advisors for an understanding of the differences between Mexican Banking GAAP and U.S. GAAP and Mexican Banking GAAP and IFRS, and how those differences might affect the financial information included in this Offering Memorandum. See “Annex A—Summary of Significant Differences Between Mexican Banking GAAP and U.S. GAAP” and “Annex B—Summary of Significant Differences Between Mexican Banking GAAP and IFRS.”

We may not be able to detect money laundering and other illegal activities, on a timely basis or at all, which could expose us to liabilities and have a material adverse effect on our business.

We are required to comply with applicable anti-money laundering and anti-terrorism financing laws in Mexico and abroad. These laws require us, among other things, to adopt and enforce “know your customer” policies and procedures, to monitor our customers’ activity in order to detect and report suspicious activity and transactions exceeding certain thresholds to the corresponding authorities, to apply know your customer and enhanced due diligence procedures to high risk customers and to keep customers’ files and records for a certain period of time. These laws have become increasingly complex and detailed, require improved systems and sophisticated monitoring and compliance personnel and have become the subject of more detailed government supervision. Recent rules have been adopted in Mexico restricting the ability of Mexican banks to physically receive currencies, as a result of foreign exchange and other similar transactions. The government agencies to which we report have the power to impose fines and other penalties on us. See “Supervision and Regulation—Money Laundering Regulations.”

While we have adopted policies and procedures, have implemented controls that we consider strong which are aimed at detecting and preventing the use of our banking network for money laundering or terrorism financing activities, and continually work on improving and strengthening those controls, there is a risk that we may be used by other persons to engage in money laundering considering that we are the largest bank in Mexico with an important presence throughout the country and that our main activity is retail banking.

To the extent we fail to fully comply with applicable laws, the relevant competent government agencies have the power to impose fines and other penalties on us, including the revocation of our banking license. In addition, our business and reputation could suffer if our infrastructure is used by third parties for money laundering or illegal purposes and some of our operations could be suspended by competent authorities. Any of these events could have a material adverse effect on our business, financial condition or results of operations.

Likewise, if we were to be accused of being associated with, or become a party to money laundering activities, then our reputation could suffer and we could become subject to fines, sanctions or being included to any “blacklist” which would prevent any third parties from transacting business with us.

Risks Relating to Mexico and Other Markets

Economic, political and social developments in Mexico could affect Mexican economic policy and our business, financial condition and results of operations.

We are a Mexican bank and most of our operations and assets are located in Mexico. As a result, our business, financial condition and results of operations may be affected by the general condition of the Mexican economy, the devaluation of the peso against the U.S. dollar, price instability, inflation, changes in crude oil prices, interest rates, regulation, taxation, social instability, acts of terrorism, outbreaks of disease and pandemics and other political, social and economic developments in or affecting Mexico over which we have no control.

The Mexican government has exercised, and continues to exercise, significant influence over the Mexican economy and occasionally makes significant changes to policies and laws. The Mexican government's actions to control inflation and other policies historically have resulted, among other things, in increases to interest rates, changes in tax policies, price controls, currency fluctuations, exchange controls and limits on imports. Mexican government actions concerning the economy and regulation of certain industries, including the banking sector, could have a significant effect on Mexican private sector entities in general, and us in particular, and on market conditions, prices and returns on Mexican securities, including our securities.

Decreases in the growth rate of the Mexican economy, periods of negative growth or reductions in disposable income could result in lower demand for our services and products. The Mexican government cut spending in response to a downward trend in international crude oil prices and as a result of the implementation of President López Obrador's austerity plan, and it could further cut spending in the future. These cuts could adversely affect the Mexican economy.

Because the Mexican economy is heavily influenced by the U.S. economy, policies that may be adopted by the U.S. government could adversely affect economic conditions in Mexico. The 2020 U.S. presidential election and the change in the U.S. administration have had an impact on the worldwide economy and the Mexican economy. See “—Risks Relating to Our Business—We have been, and may continue to be, adversely affected by U.S. and international financial markets and economic conditions.”

We could be adversely affected by changes in policies or laws involving, among others:

- interest rates;
- trade agreements between Mexico and other jurisdictions;
- exchange rates and exchange controls and restrictions on the movement of capital in or out of Mexico;
- reserve requirements;
- levels of crude oil production and crude oil prices;
- capital requirements;
- funding and lending limits;
- commissions charged to customers;
- inflation;
- liquidity of the domestic capital and lending markets; and
- tax, monetary and regulatory matters.

We cannot predict the impact that political, economic and social conditions will have on the Mexican economy. Furthermore, we cannot assure you that political, economic or social events in Mexico, over which we have no control, such as those resulting from the COVID-19 pandemic, will not have an adverse effect on our business, financial condition, results of operations and prospects. Mexico has recently experienced periods of violence and crime due to the activities of organized crime. In response, the Mexican government has implemented various measures to increase security and has strengthened its police and military forces. Despite these efforts, organized crime (drug-related crime in particular) continues to exist and operate in Mexico. These activities, their possible escalation and the violence associated with them could have a negative impact on the Mexican economy or on our operations in the future. See, “—Violence in Mexico has adversely impacted, and may continue to adversely impact, the Mexican

economy.” The social and political situation in Mexico could adversely affect the Mexican economy, which could have a material adverse effect on our business, financial condition and results of operations.

Political, economic and social conditions in Mexico could adversely and significantly affect Mexican economic policy and, in turn, our business.

Political circumstances in Mexico could significantly and adversely affect Mexican economic policy and, in turn, our operations.

The Mexican Federal Executive has historically influenced and currently influences policies affecting the country’s economy to a significant extent. This administration has implemented and could implement substantial changes in law policy in Mexico in the future, which has adversely affected and could adversely affect economic, political and social conditions in Mexico.

Since the beginning of this administration, the Mexican Federal Executive has announced and implemented several structural changes, including (i) the cancellation of important public works, such as the new Mexico City airport, (ii) a decrease in salaries and labor benefits granted to public officers, (iii) cuts to the budgets of various ministries and government offices, (iv) the termination of various public trusts and the use of funds deposited in them for purposes other than those originally contemplated, (v) reforms to laws in the field of education, electricity industry, national security, pension system, among others, and (vi) the implementation of popular consultations for the taking of political decisions of the current government.

In recent months, various rating agencies have downgraded the rating or put the rating of Mexican sovereign debt and that of Petróleos Mexicanos (“PEMEX”) on a negative perspective. We cannot assure you that the rating agencies will not announce additional reductions to Mexico’s or PEMEX’s credit ratings or those of other entities such as the Federal Electricity Commission. Any reduction in the sovereign rating could adversely affect the level of inflation or interest rates in particular and the Mexican economy in general and, consequently, our funding costs and our business, financial condition, results of operations and prospects.

Adverse economic conditions in Mexico may have a material adverse effect on our business, financial condition and results of operations.

Most of our operations are dependent upon the performance of the Mexican economy, mainly on matters such as peso/U.S. dollar exchange rates, rates of inflation, levels of interest rates, legislation, taxation, social instability and other political, social and economic developments in Mexico, over which we have no control. In the past, Mexico has experienced both prolonged periods of weak economic conditions and deterioration in economic conditions that have had a negative impact on us. We cannot assure you that these conditions will not return or will not have a significant and adverse effect on our business.

In Mexico, during 2022, GDP increased 3.1% and the inflation rate was 7.9% on average, compared to 2021, when GDP increased 5.0% and inflation was 5.7% on average.

Mexico also has, and is expected to continue to have, high real and nominal interest rates. The interest rates on 28-day Mexican government treasury securities (*Certificados de la Tesorería de la Federación*, or “Cetes”), averaged 7.78%, 4.46% and 5.31% for the years ended December 31, 2022, 2021 and 2020, respectively. Accordingly, if we incur peso denominated debt in the future, it could be done at high interest rates.

A local recession, including one resulting from a global recession, could affect our operations to the extent that we are unable to reduce our costs and expenses in response to falling demand for our products and services. Similarly, our loan portfolio could deteriorate as a result of higher delinquency rates. These factors could have a material adverse effect on our business, financial condition and results of operations.

Events in other countries, including the United States, the United Kingdom and countries in Europe, could adversely affect us.

Economic and market conditions in other countries could, to varying degrees, affect the market value of securities of Mexican companies. Although economic conditions in other countries could differ significantly from economic conditions in Mexico, investors’ reactions to developments in other countries could have an adverse effect on the market value of securities of Mexican companies. For example, during the global financial crisis in 2008, the prices of both Mexican debt and equity securities decreased substantially.

Economic conditions in Mexico have become increasingly correlated to economic conditions in the United States as a result of the North American Free Trade Agreement and increased economic activity between the two countries. The Mexican economy continues to be influenced by the U.S. economy, and therefore, the deterioration of the United States' economy, the termination of NAFTA and the entering into force of USMCA or other related events, or slowdowns or contractions of the U.S. economy may impact the economy of Mexico. Nevertheless, these changes in macroeconomic conditions in Mexico did not have a material impact on our business or operations. In addition, the normalization of monetary policy in the U.S. has caused an increase in the volatility of the peso and in the peso/U.S. dollar exchange rate. The relative strength of the U.S. dollar against other currencies, including the peso, could impact manufacturing's contribution to growth, thus affecting economic activity in Mexico.

Recently, inflationary pressures have begun to rise, some central banks have started a gradual tightening of monetary policy. The pace and timing of policy tightening has varied across countries depending on a range of factors, including the overall state of the economy and the outlook for inflation. In the United States, the Federal Reserve raised the reference rates seven times, for an aggregate increase of 425 basis points in 2022 to reach a range of 4.25-4.50% as of year end.

In Mexico, *Banco de México* kicked off the tightening process earlier and raised the reference rate on five occasions for an aggregate of 150 basis points during 2021 to reach 5.50% as of year end 2021 and an additional 725 basis points during 2022 to reach 11.25% as of year end, and an additional 700 basis points to reach 11.00% as of March 31, 2023.

We anticipate that our customers will continue, in the near future, to make deposits, and we intend to maintain our emphasis on the use of banking deposits as our main source of funds. The short-term nature of some deposits could cause liquidity problems for us in the future, if deposits are not made in the volumes we expect or if we face a higher than expected churn rate. If a substantial number of our depositors withdraw their demand deposits or do not roll over their time deposits upon maturity, we may be materially and adversely affected.

We cannot assure that in the event of a sudden or unexpected shortage of funds in the banking system, we will be able to maintain levels of funding without incurring high funding costs, a reduction in the term of funding instruments or the liquidation of certain assets. If this were to happen, our results of operations or financial condition could be materially adversely affected.

Likewise, economic conditions in Mexico could also be affected by U.S. international trade policies. Because the Mexican economy is heavily influenced by the U.S. economy, a delay in the entry into force of the USMCA and/or other U.S. trade policies that may be adopted by the U.S. government may adversely affect economic conditions in Mexico. The U.S. government's current policies have generated volatility in the global capital markets, in Mexico in particular, and could create uncertainty regarding key policies, such as trade, immigration, fiscal and defense policy.

Further, Russia's invasion of Ukraine could cause an economic impact on the financial markets by increasing volatility due to the increase in unusual uncertainty, declines in stock markets, risk perception in international markets, changes in the value of investment funds, impact on the prices and availability of commodities (gold, gas, oil and raw materials). The increase in the price of hydrocarbons in international markets, together with global inflation, could lead to higher interest rates and affect the Mexican government if it continues to import gasoline from the United States. Similarly, the possible recession in Europe caused by the suspension of gas supplies from Russia could affect Mexico by slowing down European industrial activity and, consequently, the global economy. Both the economic uncertainty and the events described above could have a negative impact on our business and results of operations.

Illegal immigration from Mexico to the United States has caused friction between the two countries and could reduce economic activity between them. On June 7, 2019, Mexico and the United States signed a joint declaration committing both countries to undertake specific actions to control illegal immigration. On January 20, 2021, President Biden proposed the U.S. Citizenship Act of 2021 to the U.S. Congress for its legislative approval. The bill aims to introduce a legal immigration reform platform and additional rights for immigrant workers.

We cannot assure you that the U.S. government will not have future plans to impose tariffs on Mexico and that we will not be adversely affected by such plans or tariffs in the future. In the event of certain changes in U.S. policy implemented by the current U.S. administration, the Mexican government could implement retaliatory actions, such as the imposition of restrictions on Mexican imports of products from the United States or imports and exports of products to the United States or remittances from the United States to Mexico. If the United States were to impose tariffs on Mexican products, this could adversely affect our business and results of operations.

Additionally, economic conditions in Mexico may also be affected by political developments in the United States. We cannot assure you that any developments in the U.S. or elsewhere will not materially and adversely affect us in the future.

See “—Risks Relating to Our Business—We have been, and may continue to be, adversely affected by U.S. and international financial market and economic conditions” for further information relating to risks posed by developments in other countries, particularly the United States, Europe and the United Kingdom. We cannot assure you that the events in the United States, Europe, the United Kingdom or elsewhere will not materially and adversely affect us in the future.

Global economic conditions, volatility in the financial markets and volatility in the price of oil may negatively affect our business, financial condition, results of operations and prospects.

The market value of the securities of Mexican companies is affected by economic and market conditions in other countries. Although economic conditions in other countries may differ significantly from economic conditions in Mexico, investor reactions to developments in any of these other countries may have an adverse effect on the market value of the securities of Mexican issuers, including our securities.

Crude oil prices increased in the first half of 2022 after Russia’s invasion of Ukraine. This situation came in the wake of rising economic activity after pandemic-related restrictions were lifted. Nevertheless, the second half of 2022 witnessed a price reversal due to growing concerns about a possible global economic recession and severe COVID-19 containment measures in China. On December 8, 2022, the price of Brent crude oil reached a 2022 low at U.S.\$75 per barrel.

Changes in taxes and other fiscal assessments may adversely affect our business, financial condition or results of operations.

The Mexican government continuously enacts reforms to the tax regime and other laws to which we and our customers are subject. Such reforms include changes in the tax rates and, occasionally, enactment of temporary taxes, the proceeds of which are earmarked for designated governmental purposes. The effects of any future tax reform cannot be quantified and there can be no assurance that any such reforms will not have an adverse effect on our business. Furthermore, any reform of this nature may produce uncertainty in the financial system, increasing the cost of borrowing and our past due portfolio.

Exposure to Mexican sovereign debt and to debt of Mexican government-owned entities could have an adverse effect on our business, financial condition or results of operations.

Like many other Mexican banks, we invest in debt securities issued by the Mexican federal government and Mexican government-owned entities. Any failure by the Mexican government or any of those government-owned entities to timely pay its debt, or a significant decrease in their market value derived from a downgrade to its credit rating, could have an adverse effect on our business.

On March 26, 2020, S&P downgraded Mexico’s sovereign debt from BBB+ to BBB. On April 15, 2020, Fitch downgraded its rating of Mexico’s sovereign debt from BBB to BBB- (stable outlook). Simultaneously, on April 17, 2020, Moody’s downgraded the credit ratings for Mexico’s sovereign debt from A3 to Baa1 and maintained the negative outlook. On April 29, 2021, Moody’s affirmed its rating of Mexico’s sovereign debt at Baa1 (negative outlook). On December 1, 2022, Fitch affirmed its rating of Mexico’s sovereign debt at BBB (stable outlook), and on July 6, 2022, S&P reaffirmed its rating of Mexico’s sovereign debt at BBB, and changed the outlook from negative to stable.

On March 26, 2020, S&P downgraded PEMEX’s stand-alone credit profile to ccc+ from b-. On April 17, 2020, Fitch downgraded its PEMEX’s rating from BB to BB-, citing the continued deterioration of its stand-alone credit profile amid the downturn in the global oil and gas industry. On the same date, Moody’s downgraded its ratings of PEMEX’s senior unsecured notes, as well as its ratings of PEMEX’s guarantee, from Baa3 to Ba2. These rating actions were triggered by PEMEX’s higher liquidity and business risk. On March 31, 2021, Fitch affirmed its rating of PEMEX’s indebtedness at BB- (stable outlook). On July 21, 2021, Moody’s downgraded its rating of PEMEX’s senior unsecured notes, as well as its ratings of PEMEX’s guarantee, from Ba2 to Ba3, and it also lowered PEMEX’s Baseline Credit Assessment (BCA) from caa2 to caa3.

As of the date of this Offering Memorandum, PEMEX’s ratings outlook remains negative primarily due to the negative outlook on Mexico’s Baa1 rating. We cannot assure that the rating agencies will not announce additional

downgrades to Mexico's and/or PEMEX's credit ratings in the future. Any recent or future downgrade may negatively affect the Mexican economy and, consequently, our business, financial conditions, operational results and perspectives.

Fluctuation in the peso/U.S. dollar and other currencies may have an adverse effect on us.

Given the nature of the Bank's operations as a financial institution, high rates of fluctuations in the peso could limit our ability to transfer pesos or to convert pesos into U.S. dollars and other currencies and could have an adverse effect on our financial condition, results of operations and cash flows in future periods. Among other effects, fluctuations could modify the amount of our foreign currency-denominated liabilities and could impact the level of defaults from our borrowers.

Considerable fluctuations in the peso could also result in the imposition of exchange controls, as has occurred in Mexico or in other countries, or disruption of international foreign exchange markets. While the Mexican government does not currently restrict the right or ability of Mexican or foreign persons or entities to convert pesos into U.S. dollars or to transfer currencies outside of Mexico, the Mexican government could enact restrictive exchange control policies in the future.

Fluctuations in the peso against the U.S. dollar could also have a material adverse effect on our financial condition or our ability to pay our debt, including the Notes.

Violence in Mexico has adversely impacted, and could continue to adversely impact, the Mexican economy.

Mexico has experienced a significant increase in violence in recent years relating primarily to illegal drug trafficking, particularly in Mexico's northern states near the U.S. border, although recently in other states like Guerrero, Guanajuato and Michoacán. This increase in violence has had an adverse impact on economic activity throughout Mexico. In addition, social instability in Mexico or social or political events in the country could adversely affect our ability to conduct our operations, offer our services and obtain financing. We cannot assure you that the levels of violent crime in Mexico, over which we have no control, will not increase or will decrease and will have no further adverse effects on Mexico's economy or on our business.

Furthermore, illegal activities have resulted in more detailed and comprehensive anti-money laundering rules and increased supervision of such activities by the competent authorities, which have affected the way in which we conduct our business and has resulted in the need to make important investments to enhance our systems and reinforce our compliance measures.

The perception of higher risk in other countries, particularly in emerging economies, could adversely affect the Mexican economy and adversely affect the price of the Notes.

Emerging economies such as Mexico are subject to greater risks than more developed markets, and financial volatility in any emerging market could disrupt business in Mexico and adversely affect the price of the Notes.

Likewise, financial crisis in any important emerging market country could adversely affect prices in stock markets and prices for debt securities of issuers in other emerging market countries as investors move their money to more stable, developed markets. Any increase in the perceived risks associated with investing in emerging markets could dampen capital flows to Mexico and adversely affect the Mexican economy in general.

Risks not contemplated in our insurance policies may materially adversely affect us.

We maintain insurance for amounts that we believe to be adequate to cover risks related to our operations including, among others, general banking liability insurance for our business, general professional liability insurance for services we provide, general directors and officers liability insurance and general liability insurance against fraudulent activity. However, it is possible that the terms and conditions of our insurance policies will not cover a specific event or incident or that our insurance will cover only part of the losses that we may incur.

If any uninsured events occur with respect to a significant part of our operations, or we are obliged to pay high deductibles, our financial condition and results of operations could be affected. Additionally, if we are unable to renew our insurance policies upon expiration or losses or other liabilities occur that are not covered by insurance or that exceed our insurance limits, we could be subject to significant unexpected additional costs which could materially adversely affect us.

Mexican financial authorities have broad authority in certain areas, including to initiate class action lawsuits, as a result of the Mexican financial reform.

Pursuant to the Mexican Law for the Protection and Defense of Users of Financial Services (*Ley de Protección y Defensa al Usuario de Servicios Financieros*), the CONDUSEF has broad authority to oversee financial institutions, such as: the ability to initiate class action lawsuits against banks in connection with events affecting groups of users of financial services; the requirement that it maintain a Bureau of Financial Entities (*Buró de Entidades Financieras*), which sets forth the relevant information for users of financial services; the ability to require amendments to the forms used to document certain operations if it considers that its provisions harm users; the ability to issue resolutions as part of arbitration proceedings, for the benefit of customers, that allow customers to attach assets of financial institutions prior to the completion of arbitration proceedings; and the broader authority to fine a financial institution that does not comply with its orders. Due to the potential scope and the lack of judicial precedents regarding the financial reform, we cannot predict the outcome of the exercise of financial oversight powers of the CONDUSEF or any class actions lawsuit, including the extent of any liability we may face.

Our corporate disclosures may be different or less substantial than those of issuers in other countries.

Issuers of securities in Mexico are required to make public disclosures that are different and that may be less substantial than disclosures required in countries with highly developed capital markets. In addition, accounting and other reporting principles and standards for credit and other financial institutions in Mexico and the financial results reported using such principles and standards may differ substantially from those results that would have been obtained using other principles and standards, such as U.S. GAAP. See “Annex A—Summary of Significant Differences Between Mexican Banking GAAP and U.S. GAAP” and “Annex B—Summary of Significant Differences Between Mexican Banking GAAP and IFRS.”

We are subject to the Total Loss-Absorbing Capacity rules.

On June 18, 2021, the resolution that modifies the General Provisions applicable to Credit Institutions (*Disposiciones de Carácter General Aplicables a las Instituciones de Crédito*) was published in the Federal Official Gazette, in order to include the Total Loss-Absorbing Capacity (“**TLAC**”) rules, which are measures developed by the Banking Stability Committee focused on ensuring that banks classified as globally systemically significant, such as the Bank, have the necessary capacity to absorb losses and recapitalize during a resolution process, without interrupting their critical functions and without the need to resort to taxpayers’ resources.

In order to comply with TLAC rules, the Bank, which is considered a bank of local systemic importance, must have a minimum capital supplement of at least 6.5% of total risk-weighted assets, in addition to regulatory capital and other capital supplements, considering the existence of the IPAB, or 3.75% of the adjusted assets used for the calculation of the leverage ratio. A transitional period of compliance is established that will begin in December 2022, with increments of 0.25% each year and will end in December 2025, the date on which the requirement must be fully complied with. Accordingly, the Bank must maintain a net capital in relation to credit and operational market risks, which may not be less than the sum of the capital requirements for each type of risk, as well as maintain the aforementioned supplement to the net capital.

While the TLAC rules will help ensure that the banking system has sufficient loss absorbing capacity in times of economic stress, the Bank may need to increase its capital in order to meet the additional capital requirements of the TLAC rules. In addition, future capital distributions (dividends and repurchases) will need to meet the required capital levels associated with the adoption of the TLAC rules and reserves will need to be sufficient to cover expected credit losses in 2022.

Due to the recent entry into force and adoption of the TLAC rules, it is currently not possible to predict with certainty the magnitude of the impact that the TLAC rules may have on the Bank’s business, financial condition or results of operations in Mexico.

Risks Relating to the Notes

Notes issued under the Program may not be a suitable investment for all investors. Each potential investor in the Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- have sufficient knowledge and experience to make a meaningful evaluation of the relevant Notes, the merits and risks of investing in such Notes and the information contained or incorporated by reference in this Offering Memorandum or any applicable supplement;
- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the relevant Notes and the impact such Notes will have on its overall investment portfolio;
- have sufficient financial resources and liquidity to bear all of the risks of an investment in the relevant Notes, including Notes with principal or interest payable in one or more Specified Currencies, or where the Specified Currency for principal or interest payments is different from the potential investor's usual currency for holding investments;
- understand thoroughly the terms of the relevant Notes and be familiar with the behavior of any relevant indices and financial markets; and
- be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment in the relevant Notes and its ability to bear the applicable risks.

Risks Related to the Notes Generally

Set out below is a brief description of certain risks relating to the Notes generally:

There is no trading market for the Notes; you may be unable to sell your Notes if a trading market for the Notes does not develop.

Each series of Notes will constitute a new issue of securities with no established trading market. Application has been made to Euronext Dublin for Notes issued under the Program to be admitted to the Official List and trading on the Global Exchange Market although the Bank may, from time to time, issue Notes under the Program that are listed on another exchange. The Bank cannot assure you that an active trading market for the Notes will develop. If a trading market does not develop or is not maintained, holders of the Notes may experience difficulty in reselling the Notes or may be unable to sell them at all. Even if a market develops, the liquidity of any market for the Notes will depend on the number of holders of the Notes, the interest of securities dealers in making a market in the Notes and other factors. Accordingly, there can be no assurance as to the development or liquidity of any market for the Notes, the ability of holders to sell the Notes or the prices at which the Notes could be sold. Because the market for any series of Notes may not be liquid, you may have to bear the economic risk of an investment in the Notes for an indefinite period of time. If an active trading market does not develop, the market price and liquidity of the Notes may be adversely affected. If the Notes are traded, they may trade at a discount from their initial offering price depending upon prevailing interest rates, the market for similar securities, general economic conditions, the Bank's performance and business prospects, regulatory changes and other factors. Recent regulatory actions by the SEC under Rule 15c2-11 of the Exchange Act and any interpretations thereof may restrict the ability of brokers and dealers to publish quotations on the Notes on any interdealer quotation system or other quotation medium after January 4, 2025, which may materially adversely affect the liquidity and trading prices for the Notes.

There is market price risk associated with an investment in the Notes.

The market price of each series of Notes depends on various factors, such as changes of interest rate levels, the policy of central banks, overall economic developments, inflation rates or the supply and demand for the relevant type of Note. The market price of each series of Notes may also be negatively affected by an increase in the Bank's credit spreads (*i.e.*, the difference between yields on the Bank's debt and the yield of government bonds or swap rates of similar maturity). The Bank's credit spreads are mainly based on its perceived creditworthiness but also influenced by other factors such as general market trends as well as supply and demand for such series of Notes.

There is exchange rate risk and risk of exchange controls associated with an investment in the Notes.

An investment in Notes that are denominated in, or the payment of which is to be or may be made in or related to the value of, a currency or composite currency other than the currency of the country in which the purchaser is a resident or the currency in which the purchaser conducts its business or activities (the "**home currency**") entails significant risks that are not associated with a similar investment in a security denominated in the home currency. Such risks include the possibility of significant changes in rates of exchange between the home currency and the

various foreign currencies (or composite currencies) after the issuance of such Note and the possibility of the imposition or modification of foreign exchange controls by governments. Such risks generally depend on economic and political events over which the Bank has no control. In recent years, rates of exchange between certain currencies have been highly volatile and such volatility may be expected to continue in the future. Fluctuations in any particular exchange rate that have occurred in the past are not necessarily indicative, however, of fluctuations in such rate that may occur during the term of any Note. Depreciation of the currency in which a Note is denominated against the relevant home currency would result in a decrease in the effective yield of such Note below its coupon rate and, in certain circumstances, could result in a loss to the investor on a home currency basis. In addition, depending on the specific terms of a currency linked Indexed Note, changes in exchange rates relating to any of the currencies involved may result in a decrease in the effective yield of such currency linked Indexed Note and, in certain circumstances, could result in a loss of all or a substantial portion of the principal of a currency linked Indexed Note to the investor.

Foreign exchange rates can either be fixed by sovereign governments or float. Exchange rates of most economically developed nations are permitted to fluctuate in value relative to the U.S. dollar. National governments, however, rarely voluntarily allow their currencies to float freely in response to economic forces. Governments in fact use a variety of techniques, such as intervention by a country's central bank or imposition of regulatory controls or taxes, to affect the exchange rate of their currencies. Governments may also issue a new currency to replace an existing currency, or alter the exchange rate or relative exchange characteristics by devaluation or revaluation of a currency. Thus, a special risk in purchasing non-home currency denominated Notes or currency linked Indexed Notes is that their home currency-equivalent yields could be affected by governmental actions, which could change or interfere with freely determined currency valuation, fluctuations in response to other market forces, and the movement of currencies across borders. There will be no adjustment or change in the terms of such Notes if exchange rates should become fixed, or in the event of any devaluation or revaluation or imposition of exchange or other regulatory controls or taxes, or in the event of other developments affecting the U.S. dollar or any applicable Specified Currency.

Governments have imposed from time to time, and may in the future impose, exchange controls which could affect exchange rates as well as the availability of a specified foreign currency at the time of payment of principal and of premium, if any, or interest, if any, on a Note. Even if there are no actual exchange controls, it is possible that the Specified Currency for any particular Note not denominated in U.S. dollars would not be available at such Note's maturity. In that event, the Bank would make required payments in U.S. dollars on the basis of the market exchange rate on the date of such payment, or if such rate of exchange is not then available, on the basis of the market exchange rate as of the most recent practicable date. The relevant provisions applicable to Foreign Currency Notes will be as set forth in the applicable Pricing Supplement related to any such Notes.

There is interest rate risk associated with an investment in the Notes.

Investment in Fixed Rate Notes involves the risk that subsequent changes in market interest rates may adversely affect the value of the Fixed Rate Notes.

Future discontinuance of certain benchmark rates may adversely affect the value of Floating Rate Notes which are linked to or which reference any such benchmark rate.

On March 5, 2021, the United Kingdom Financial Conduct Authority (the "FCA") confirmed that all LIBOR settings would either cease to be provided by any administrator or no longer be representative (i) immediately after December 31, 2021, in the case of all sterling, euro, Swiss franc and Japanese yen settings, and the 1-week and 2-month U.S. dollar settings, and (ii) immediately after June 30, 2023, in the case of the remaining U.S. dollar settings. It is not possible to predict whether, and to what extent, panel banks will continue to provide LIBOR submissions to the administrator of LIBOR in the future. This may cause LIBOR to perform differently than it did in the past and may have other consequences that cannot be predicted.

On September 29, 2022, the FCA announced its decision to cease the sterling 1-month and 6-month synthetic sterling LIBOR. Publication will continue until the end of March 2023, after which these settings will permanently cease.

On November 23, 2022, the FCA announced its decision to continue requesting the ICE Benchmark Administration to publish the 3-month synthetic LIBOR until the end of March 2024, after which it will cease permanently.

Investors should be aware that, if a benchmark rate were discontinued or otherwise unavailable, the rate of interest on Floating Rate Notes which are linked to or which reference such benchmark rate will be determined for the

relevant period by the fallback provisions applicable to such Notes. Each applicable Indenture and the Floating Rate Notes will provide for certain fallback arrangements if a published benchmark (including any page on which such benchmark may be published (or any successor service)), such as LIBOR or EURIBOR, becomes unavailable or a LIBOR Event (as described under “Description of the Notes”) otherwise occurs.

If the referenced benchmark rate is replaced, as specified in the applicable Pricing Supplement for any series of Notes as being applicable (any such Notes, “**Relevant Notes**”) and the circumstances described in the preceding paragraph occur in relation to a benchmark rate at any time when any rate of interest (or component thereof) remains to be determined by reference to such benchmark rate, such fallback arrangements will include the possibility that:

- (a) the relevant rate of interest (or, as applicable, component thereof) could be set or, as the case may be, determined by reference to a successor reference rate or an alternative reference rate (as applicable) determined by the calculation agent, as directed by the Bank, or, if the Bank determines that there is no alternative reference rate that is consistent with market practice regarding a substitute for debt securities like the Relevant Notes, the Bank may, in its sole discretion, appoint an independent financial advisor to determine an appropriate alternative reference rate; and
- (b) such successor reference rate or alternative reference rate (as applicable) may be adjusted (if required) by the calculation agent, as directed by the Bank, or the independent financial advisor (if applicable), in order to make changes to the terms of the Notes that are necessary in order to follow market practice in relation to the relevant successor reference rate or alternative reference rate and to ensure the proper operation and comparability to the benchmark rate of the relevant successor reference rate or alternative reference rate (as applicable),

In any such case, acting in good faith and in a commercially reasonable manner as described more fully in “Description of the Notes.”

No consent of the holders of the Notes will be required in connection with effecting any relevant successor reference rate or alternative reference rate (as applicable) or any other related adjustments and/or amendments described above.

In certain circumstances, the ultimate fallback of interest for a particular Interest Period may result in the rate of interest for the last preceding Interest Period being used. This may result in the effective application of a fixed rate for Floating Rate Notes based on the rate which was last observed on the relevant screen page. In addition, due to the uncertainty concerning the availability of successor reference rates and alternative reference rates and the involvement of an independent financial adviser, the relevant fallback provisions may not operate as intended at the relevant time.

Any such consequences could have a material adverse effect on the value of and return on any such Notes. Moreover, any of the above matters or any other significant change to the setting or existence of any relevant rate could affect the ability of the Bank to meet its obligations under the Floating Rate Notes or could have a material adverse effect on the value or liquidity of, and the amount payable under, the Floating Rate Notes. Investors should note that, in the case of Relevant Notes, the Bank, or the relevant independent financial adviser (if applicable), will have discretion to adjust the relevant successor reference rate or alternative reference rate (as applicable) in the circumstances described above. Any such adjustment could have unexpected commercial consequences and there can be no assurance that, due to the particular circumstances of each holder of Note, any such adjustment will be favorable to each holder of a Note.

Investors should consider all of these matters when making their investment decision with respect to the relevant Floating Rate Notes.

A rating of the Notes may be lowered or withdrawn depending on various factors, including the rating agencies’ assessment of our financial strength and Mexican sovereign risk.

Any rating of the Notes addresses the likelihood of payment of principal at their maturity. Such rating also addresses the timely payment of interest on each payment date. Any rating of the Notes is not a recommendation to purchase, hold or sell the Notes, and the rating does not comment on market price or suitability for a particular investor. We cannot assure you that a rating of the Notes will remain for any given period of time or that the rating will not be lowered or withdrawn. An assigned rating may be raised or lowered depending, among other things, on the respective rating agency’s assessment of our financial strength, as well as its assessment of Mexican sovereign risk generally. See “—Reductions in our credit ratings or those of any of our subsidiaries could increase our cost of borrowing funds and make our ability to raise new funds, attract deposits or renew maturing debt more difficult.”

Credit ratings may not reflect all risks, and the Bank cannot assure you that such ratings will not be lowered, suspended or withdrawn by the rating agencies.

One or more independent credit rating agencies may assign credit ratings to the Notes. Where a series of Notes is rated, such rating will not necessarily be the same as the rating assigned to the Notes to be issued under the Program. Credit ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of the Notes. The credit ratings of the Notes may change after issuance. Such ratings are limited in scope, and do not address all material risks relating to an investment in the Notes, but rather reflect only the views of the rating agencies at the time the credit ratings are issued. An explanation of the significance of such ratings may be obtained from the rating agencies. The Bank cannot assure you that such credit ratings will remain in effect for any given period of time or that such ratings will not be lowered, suspended or withdrawn entirely by the rating agencies, if, in the judgment of such rating agencies, circumstances so warrant. Any lowering, suspension or withdrawal of such ratings may have an adverse effect on the market price and marketability of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time. Any credit ratings assigned to Notes as at the date of this Offering Memorandum are not indicative of future performance of the Bank's business or its future creditworthiness.

The interest rate on Fixed Reset Notes will reset on each Fixed Reset Date, which can be expected to affect interest payments on an investment in Fixed Reset Notes and could affect the market value of Fixed Reset Notes

Fixed Reset Notes will initially bear interest at the Initial Fixed Reset Interest Rate (as specified in the applicable Pricing Supplement) until (but excluding) the Fixed Reset Date (as specified in the applicable Pricing Supplement). On the Fixed Reset Date and each Subsequent Reset Date specified in the applicable Pricing Supplement (if any) thereafter, the interest rate will be reset to the Subsequent Reset Rate (each, as defined in "Description of the Notes—Fixed Reset Notes—Rate of Interest"). The Subsequent Reset Rate for any reset period could be less than the Initial Fixed Reset Interest Rate or the Subsequent Reset Rate for prior reset periods and could affect the market value of an investment in the Fixed Reset Notes.

Changes in law may adversely affect your rights under the Notes or may adversely affect us.

Changes in law after the date hereof may affect your rights as a holder of the Notes as well as the market value of the Notes. Regulators may, from time to time, propose or consider amendments to law or legislation and rule-making which may affect our business, your rights as a holder of the Notes and the market value of the Notes. Such changes in law may include changes in statutory, tax and regulatory regimes during the life of the Notes, or changes that could have a significant impact on the future legal entity structure, our management, and use of capital and requirements for our loss-absorbing capacity, which may have an adverse effect on an investment in the Notes.

Such legislative and regulatory uncertainty could also affect your ability to accurately value the Notes and therefore affect the trading price of the Notes given the extent and impact on the Notes that one or more regulatory or legislative changes could have on the Notes and changes in regulatory rules could increase likelihood of suspension or write-down.

The Notes are subject to certain transfer restrictions.

The Notes have not been registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States. Accordingly, the Notes may be transferred or resold only in a transaction registered under or exempt from the registration requirements of the Securities Act and in compliance with any other applicable securities law. See "Transfer Restrictions."

Holders of Notes may find it difficult to enforce civil liabilities against the Bank or its directors, executive officers and controlling persons.

The Bank is organized under the laws of Mexico as a multi-purpose bank (*institución de banca múltiple*) with limited liability (*sociedad anónima*). Most of its directors, officers and controlling persons reside outside of the United States.

In addition, all or a substantial portion of the assets of the Bank are located outside of the United States. As a result, it may be difficult for holders of Notes to effect service of process within the United States on such persons or to enforce judgments against them, including in any action based on civil liabilities under the U.S. federal securities laws. See "Service of Process and Enforcement of Civil Liabilities."

The non-payment of funds by any of the Bank's subsidiaries could have a material adverse effect on the Bank's ability to pay amounts due in respect of our debt, including the Notes.

The Bank's cash flow and its ability to service debt depend in part on the cash flow and earnings of its subsidiaries and the payment of funds by those subsidiaries to the Bank in the form of loans, interest, dividends or otherwise. The subsidiaries are separate and distinct legal entities and have no obligation, contingent or otherwise, to pay any amounts due under the terms of the Notes or to make any funds available for such purpose. Furthermore, claims of creditors of such subsidiaries, including trade creditors of such subsidiaries, will have priority over the Bank's creditors, including the holders of the Notes, with respect to the assets and cash flow of such subsidiaries. Any right we may have to receive assets of any of our subsidiaries upon their liquidation or reorganization (and the consequent right of the holders of Notes to participate in those assets) will be effectively subordinated to the claims of that subsidiary's creditors.

Mexican law does not require the Bank to pay its foreign-currency judgments in a currency other than pesos.

Although the Bank's obligations to pay U.S. dollars outside Mexico are valid, under Article 8 of the Mexican Monetary Law (*Ley Monetaria de los Estados Unidos Mexicanos*), if proceedings are brought in Mexico seeking to enforce in Mexico the Issuer's obligations under the Notes, the Issuer would not be required to discharge such obligations in Mexico in a currency other than Mexican currency. Pursuant to such Article 8, an obligation that is payable in Mexico in a currency other than Mexican currency may be satisfied in Mexican currency at the rate of exchange in effect on the date and in the place payment occurs. Such rate is currently determined by *Banco de México* every business banking day in Mexico and published the following business banking day in the Federal Official Gazette. It is unclear, however, whether the applicable rate of exchange applied by the Mexican court to determine the Mexican judgment currency is the rate prevailing at the time when the judgment is rendered or when the judgment is paid. Provisions that purport to limit the Bank's liability to discharge its obligations as described above, or to give any party an additional course of action seeking indemnity or compensation for possible deficiencies arising or resulting from variations in rates of exchange, may not be enforceable in Mexico.

Under the Mexican Banking Law, in the event of the revocation of the Bank's license to operate as a bank and consequent liquidation, foreign currency-denominated liabilities would be converted into pesos at the prevailing rate of exchange on the date our license to operate as a bank is revoked.

If the Bank were declared insolvent by the CNBV, the Bank would be liquidated in a court procedure, and the holders of Notes may find it difficult to collect payment on the Notes.

Under the Mexican Banking Law, if the CNBV declares the Bank insolvent, the Bank's authorization to be organized and operating as a bank institution will be revoked, and a liquidation procedure before a Mexican federal court will commence, in which, by statute, the IPAB will be appointed as the receiver (*liquidador judicial*). The Bank would be in liquidation as of the date following the notification by the CNBV of the revocation of the authorization to be organized and operating as a bank institution, and the Bank's payment obligations denominated in foreign currencies, including any Notes, would (i) be converted to pesos at the exchange rate prevailing at the time such revocation is deemed effective, other than secured debt, (ii) cease accruing interest to the extent such debt is not secured, (iii) be paid at the time claims of creditors are satisfied and (iv) not be adjusted to consider any depreciation of the peso against the U.S. dollar occurring after the liquidation procedure begins. In addition, in the event of the Bank's liquidation, Mexican law provides preferential treatment for certain claims, such as those relating to labor, taxes, social security claims and secured creditors.

The Notes will contain provisions which may permit their modification without the consent of all investors and which may permit an assignment of the Notes to a subsidiary of the Bank without the consent of the holders of a Series of Notes, if the Bank remains jointly and severally liable for such obligations.

The Notes will contain provisions for calling meetings of holders of Notes to consider matters affecting their interests generally. These provisions will permit defined majorities to bind all holders of the Notes of a Series, including holders who did not attend and vote at the relevant meeting and holders who voted in a manner contrary to the majority as set forth in "Description of the Notes."

In addition, unless otherwise specified in the applicable Pricing Supplement, the terms of each Series of Notes will permit the Bank to assign its obligations under such Series of Notes and the applicable Indenture to a subsidiary of the Bank so long as the Bank remains jointly and liable for such obligations.

For further information, see “Description of the Notes—Certain Terms and Conditions Applicable to Subordinated Notes—Modification of a Subordinated Notes Indenture; Waiver of Covenants” and “Description of the Notes—Certain Terms and Conditions Applicable to Senior Notes—Modification of the Senior Notes Indenture; Waiver of Covenants.”

Any such action may have an adverse effect on the Notes of such Series and the holders of such Notes.

Reliance on DTC, Euroclear and Clearstream procedures.

Unless issued in definitive form, Notes issued under the Program will be represented on issue by one or more global Notes that may be deposited with or registered in the name of a nominee for a common depository or a common safekeeper, as the case may be, for Euroclear or Clearstream or may be deposited with or registered in the name of a nominee for DTC. Except in the circumstances described in the applicable global Note, investors in a global Note will not be entitled to receive Notes in definitive form. Each of DTC, Euroclear and Clearstream and their respective direct and indirect participants will maintain records of the beneficial interests in each global Note held through it. While the Notes are represented by a global Note, investors will be able to trade their beneficial interests only through the relevant clearing systems and their respective participants.

Except in the case of a Global Note denominated in a specified currency other than U.S. dollars and registered in the name of DTC or its nominee and in respect of which a participant in DTC has elected to receive any part of such payment in that specified currency, for so long as the Notes are represented by Global Notes, the Issuer will discharge its payment obligation under the Notes by making payments through the relevant clearing systems. A holder of a beneficial interest in a Global Note must rely on the procedures of the relevant clearing system and its participants to receive payments under the Notes. The Bank has no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in any Global Note.

Holders of beneficial interests in a Global Note will not have a direct right to vote in respect of the Notes so represented. Instead, such holders will be permitted to act only to the extent that they are enabled by the relevant clearing system and its participants to appoint appropriate proxies.

Risks Related to Subordinated Notes

Subordinated Notes present, among others, the following risks:

Subordinated Notes will be unsecured and subordinated and rank junior in right of payment and in liquidation to all of our present or future senior indebtedness.

Subordinated Notes will constitute our subordinated preferred indebtedness (*obligaciones subordinadas preferentes*), will be subordinated and junior in right of payment and in liquidation to all of our senior indebtedness, and will rank pari passu without preference among themselves with all our other subordinated preferred indebtedness. No payment of principal (including redemption payments), premium, if any, or interest on the Subordinated Notes may be made at any time when (i) any senior indebtedness is not paid when due and any applicable grace period with respect to such default has ended and such default has not been cured or waived or ceased to exist, or (ii) the maturity of any senior indebtedness has been accelerated because of a default. By reason of the subordination of the Subordinated Notes, in the case of certain events involving bankruptcy, liquidation or dissolution, although the Subordinated Notes would become immediately due and payable at their principal amount together with accrued interest thereon, our assets would be available to pay such amounts only after all of our senior indebtedness have been paid in full. As of December 31, 2021, we had an aggregate principal amount of Ps.72,055 million in subordinated bonds issued. The Subordinated Notes Indentures will not limit our ability to incur additional senior indebtedness and subordinated preferred indebtedness from time to time. See “Description of the Notes—Certain Terms and Conditions Applicable to Subordinated Notes.”

Interest and principal payments to be made by us under the Subordinated Notes will be deferred if any of our Capital Ratios has declined below the Capital Ratios required under the Mexican Capitalization Requirements, or if a Mexican Regulatory Event has occurred and is continuing.

Under the Rules for Capitalization, capital securities issued by the Bank will be taken into account when assessing its risk-weighted capital adequacy. In order for the Subordinated Notes to qualify as the Bank’s capital, each Subordinated Notes Indenture will provide that interest and principal payments will be deferred, on the correspondent payment dates, if any of our Capital Ratios declines below the minimum percentages required from time to time by the Mexican Capitalization Requirements or if any Mexican Regulatory Event has occurred and is continuing. For

details regarding the minimum percentages or the events leading to a Mexican Regulatory Event, see “Description of the Notes—Treatment of Interest and Principal During a Suspension Period.”

Payments of interest due on the Subordinated Notes will be cumulative, so that if payments of interest cease during a Suspension Period, holders of the Subordinated Notes will have the right to receive any amount of unpaid interest at the end of such Suspension Period. See “Description of the Notes—Treatment of Interest and Principal During a Suspension Period.” Notwithstanding the foregoing, there can be no guarantee that holders of the Subordinated Notes will receive payments of interest in respect of the Subordinated Notes that are deferred in connection with a Suspension Period. Any suspension of payments due to the Bank’s failure to maintain Capital Ratios equal to or greater than the minimum percentage required under the Mexican Capitalization Requirements would have a material adverse effect on the Issuer’s ability to make scheduled payments under the Subordinated Notes.

The U.S. federal income tax consequences of an investment in the Subordinated Notes are uncertain. Holders are urged to read the more detailed discussion of the U.S. federal income tax treatment of the Subordinated Notes under “Taxation—United States Taxation—United States Holders—Subordinated Notes.”

No statutory, judicial or administrative authority directly addresses the characterization for U.S. federal income tax purposes of the Subordinated Notes or instruments with a similar write-down feature. As a result, significant aspects of the U.S. federal income tax consequences of an investment in the Subordinated Notes are not certain. However, we intend, absent a change in law, to treat the Subordinated Notes as our equity (rather than debt) for U.S. federal income tax purposes. Treatment of the Subordinated Notes as debt for U.S. federal income tax purposes may significantly change the tax treatment of the Subordinated Notes in ways that are potentially adverse to holders. See “Taxation—United States Taxation—United States Holders—Subordinated Notes” below. Holders are urged to consult their tax advisors concerning the U.S. federal income tax consequences of an investment in the Subordinated Notes.

Capital Ratios of the Bank are affected by business decisions made by the Bank and its shareholders and, in making such decisions, these interests may not be aligned with those of the holders of Subordinated Notes.

The Subordinated Notes will have terms that are affected by the extent to which the Bank is in compliance with the Mexican Capitalization Requirements. See “Description of the Notes—Certain Terms and Conditions Applicable to Subordinated Notes.” Our Capital Ratios could be affected by a number of factors, including business decisions taken by the Bank in coordination with its controlling shareholder, GFBM. In this regard, the Bank’s business strategy and operations may depend on the decisions of the BBVA Group relating to its overall business, including its Mexican operations carried on by the Bank, as well as the overall management of the Bank and the BBVA Group’s consolidated capital position. The Bank has no obligation to consider the interests of the holders of any Subordinated Notes (or any other series of our indebtedness that may be outstanding) in connection with overall strategic decisions of the BBVA Group, including in respect of capital management, regardless of whether they result in the occurrence of a Trigger Event or Suspension Period with respect to the Subordinated Notes. In addition, holders will not have any claim against the Issuer or its shareholders relating to decisions that affect the business and operations of the BBVA Group, including its capital position, regardless of whether they result in the occurrence of any event that causes a suspension or cancellation of amounts due in respect of any Subordinated Notes. In addition, notwithstanding the applicability of any one or more of the conditions set out above that would result in amounts due in respect of any Subordinated Notes not being paid or being paid only in part, there will be no restriction on the Bank paying dividends on its ordinary shares or making pecuniary or other distributions to the holders of its ordinary shares, including its controlling shareholder, GFBM, assuming that the Bank is in compliance with the Mexican Capitalization Requirements. Such decisions could cause holders of any Subordinated Notes to lose all or part of the value of their investment in such Subordinated Notes.

The circumstances surrounding or triggering a Write-Down of Subordinated Notes are unpredictable and may be caused by factors not fully within the Issuer’s control.

The occurrence of a Trigger Event, and a resulting write-down, is inherently unpredictable and may depend on a number of factors, any of which may be outside of the Issuer’s control. The determination as to whether a Trigger Event has occurred will partially depend on the calculation of our Fundamental Capital ratio and whether such ratio has fallen below 4.5%. For further information, see “Supervision and Regulation—Capitalization” and “Description of the Notes—Trigger Event and Write-Down.” Fluctuations in the Bank’s Fundamental Capital ratio may be caused by changes to the Mexican Capitalization Requirements and applicable accounting rules, among other external factors. Further, the thresholds for a Trigger Event may be changed in the future.

Historically, the value of debt securities similar to Subordinated Notes in the context of financial distress has been subject to write-down to zero. For example, recently Credit Suisse's takeover by the Swiss Financial Market Supervisory Authority triggered a complete write-down of the value of all of the Credit Suisse's tier-1 bonds.

Due to the uncertainty regarding whether a Trigger Event will occur in the future, it will be difficult to predict when, if at all, a write-down may occur. In addition, any disclosure that the Bank's Fundamental Capital ratio is moving towards the level which would cause the occurrence of a Trigger Event may have an adverse effect on the market price and liquidity of the Notes.

DTC may decide to suspend all clearance and settlement of transfers of Subordinated Notes by holders of Subordinated Notes after its receipt of a Write-Down Notice that causes the principal amount of Subordinated Notes to be reduced to zero, and any transfer of Subordinated Notes that is scheduled to settle after such suspension is expected to be rejected by DTC and will not be settled within DTC.

DTC may decide to suspend all clearance and settlement of transfers of Subordinated Notes by holders after its receipt of a Write-Down Notice that causes the principal amount of Subordinated Notes to be reduced to zero. With respect to any issuance of Subordinated Notes, we will agree to provide a Write-Down Notice (as defined in the "Description of the Notes—Certain Terms and Conditions Applicable to Subordinated Notes—Treatment of Interest and Principal During a Suspension Period") to holders and to the Trustee via the applicable clearing system on the business day after the occurrence of the Trigger Event. However, the records of DTC will not be immediately updated to reflect the Trigger Event, and a period of time, which may exceed several days, may be required before the clearance and settlement of transfers of Subordinated Notes through DTC are suspended.

Due to such delay, it is possible that transfers that are initiated prior to such suspension and scheduled to settle on a date after DTC commences such suspension fail to settle through DTC even though such transfers were initiated prior to the Trigger Event that caused the principal amount of the Notes to be reduced to zero. In such circumstances, transferors of such Subordinated Notes would not receive any consideration through DTC in respect of such intended transfer because DTC will not settle such transfer after commencement of such suspension. Similarly, it is possible that transfers that are initiated prior to such suspension and scheduled to settle on a date before DTC commences such suspension will be settled through DTC even though such transfers were initiated after the Trigger Event that caused the principal amount of the Subordinated Notes to be reduced to zero. In such circumstances, transferees of the Subordinated Notes may be required to pay consideration through DTC even though, upon the occurrence of such Trigger Event, no amounts under the Subordinated Notes will thereafter become due, and such transferees will have no rights whatsoever under the relevant Subordinated Notes Indenture or the Subordinated Notes to take any action or enforce any rights or instruct the Trustee to take any action or enforce any rights whatsoever against us, regardless of whether they have received actual or constructive notice of such fact. The settlement of Subordinated Notes following a Trigger Event will be subject to procedures of DTC that are in place at such time.

If we do not satisfy our obligations under the Subordinated Notes, whether due to a Write-Down or otherwise, your remedies will be limited.

Payment of principal on Subordinated Notes may be accelerated only in specified instances involving our liquidation or dissolution. There is no right of acceleration in the case of a default in the performance of any of our covenants, including a default in the payment of principal or interest. See "Description of the Notes—Treatment of Interest and Principal During a Suspension Period" and "Description of the Notes—Certain Terms and Conditions Applicable to Subordinated Notes—Events of Default, Notice and Waiver."

Even if the payment of principal on the Subordinated Notes is accelerated due to the Issuer's liquidation or dissolution, the Issuer's assets will be available to pay those amounts only after:

- all of the Issuer's senior obligations have been paid in full as described under "Description of the Notes—Certain Terms and Conditions Applicable to Subordinated Notes—Ranking"; and
- the Issuer is actually declared bankrupt or dissolved or put into liquidation for purposes of Mexican law.

As a result, recoveries on the Subordinated Notes may be substantially limited.

The Subordinated Notes will be subject to redemption in the event of specified changes affecting the treatment of Subordinated Notes under the Rules for Capitalization or changes affecting the tax treatment of the Subordinated Notes.

Upon the occurrence and continuation of certain specified changes affecting the tax treatment of the Subordinated Notes or treatment of the Subordinated Notes as capital securities under the Rules for Capitalization, which may occur from time to time, as described under “Description of the Notes— Subordinated Notes Optional Redemption and Special Event Redemption of Subordinated Notes—Special Event Redemption,” the Issuer will have the option under the relevant Subordinated Notes Indenture to redeem the Subordinated Notes, at any time prior to the Maturity Date, in whole or, in certain circumstances, in part, subject to any regulatory requirements, which may be amended from time to time.

Risks Related to the Structure of a Particular Issue of Notes

A wide range of Notes may be issued under the Program. Some Notes are complex financial instruments and such instruments may be purchased as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. A potential investor should not invest in Notes which are complex financial instruments unless it has the expertise (either alone or with a financial adviser) to evaluate how the relevant Notes will perform under changing conditions, the resulting effects on the value of such Notes and the impact such investment will have on the potential investor’s overall investment portfolio. Certain Notes may have features which contain particular risks for potential investors. Set out below is a description of certain risks associated with the most common such features:

Notes may be subject to optional redemption by the Issuer.

Notes with an optional redemption are likely to have a limited market value. During any period when the Issuer may elect to redeem Notes, the market value of such Notes generally will not rise substantially above the price at which they can be redeemed. This also may be true prior to any redemption period.

The Issuer may be expected to redeem Notes when its cost of borrowing is lower than the interest rate on the Notes. At those times, an investor generally would not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Notes being redeemed and may only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time.

Variable rate notes with a multiplier or other leverage factor.

Notes with variable interest rates can be volatile investments. If they are structured to include multipliers or other leverage factors, or caps or floors, or any combination of those features or other similar related features, their market values may be even more volatile than those for securities that do not include those features.

The application of the net proceeds of SDG Notes as described under “Use of Proceeds” may not meet investor expectations or be suitable for an investor’s investment criteria.

Prospective investors in any Notes where the “Use of Proceeds” in the applicable Pricing Supplement are stated to be for “green,” “social” or “sustainability” purposes as described under “Use of Proceeds” herein (“**Green Notes**,” “**Social Notes**” or “**Sustainability Notes**,” respectively, and, together, “**SDG Notes**”), should have regard to the information in “Use of Proceeds” with respect to the use of the net proceeds of those SDG Notes and must determine for themselves the relevance of such information for the purpose of any investment in such SDG Notes together with any other investigation such investor deems necessary. In particular, no assurance is given by the Bank or the Dealers that the use of such proceeds for any Sustainability Projects (as defined in the “Use of Proceeds” section below) will satisfy, whether in whole or in part, any present or future investor expectations or requirements as regards any investment criteria or guidelines with which such investor or its investments are required to comply.

Furthermore, it should be noted that there is currently no clearly defined definition (legal, regulatory or otherwise) of, nor market consensus as to what constitutes, a “green,” “social” or “sustainable” or an equivalently-labelled project or as to what precise attributes are required for a particular project to be defined as “green,” “social” or “sustainable” or such other equivalent label nor can any assurance be given that such a clear definition or consensus will develop over time or that any prevailing market consensus will not significantly change. Accordingly, no assurance is or can be given to investors that any projects or uses the subject of, or related to, any Sustainability Projects will meet any or all investor expectations regarding such “green,” “social” or “sustainable” or other

equivalently-labelled performance objectives or that any adverse environmental, social and/or other impacts will not occur during the implementation of any projects or uses the subject of, or related to, any Sustainability Projects.

No assurance or representation is given as to the suitability or reliability for any purpose whatsoever of any report, assessment, opinion or certification of any third party (whether or not solicited by the Bank), which may or may not be made available in connection with the issue of any SDG Notes and in particular with any Sustainability Projects to fulfill any environmental, social, sustainability and/or other criteria. Any such report, assessment, opinion or certification is not, nor shall be deemed to be, incorporated in and/or form part of this Offering Memorandum. Any such report, assessment, opinion or certification is not, nor should be deemed to be, a recommendation by the Bank, the Dealers or any other person to buy, sell or hold any such SDG Notes. Any such report, assessment, opinion or certification is only current as of the date it was issued. Prospective investors must determine for themselves the relevance of any such report, assessment, opinion or certification and/or the information contained therein and/or the provider of such report, assessment, opinion or certification for the purpose of any investment in such SDG Notes. Currently, the providers of such reports, assessments, opinions and certifications are not subject to any specific oversight or regulatory or other regime.

If any SDG Notes are listed or admitted to trading on any dedicated “green,” “environmental,” “social” or “sustainable” or other equivalently-labelled segment of any stock exchange or securities market (whether or not regulated), no representation or assurance is given by the Bank, the Dealers or any other person that such listing or admission satisfies, whether in whole or in part, any present or future investor expectations or requirements as regards any investment criteria or guidelines with which such investor or its investments are required to comply. Furthermore, the criteria for any such listings or admission to trading may vary from one stock exchange or securities market to another. Nor is any representation or assurance given or made by the Issuer, the Dealers or any other person that any such listing or admission to trading will be obtained in respect of any such SDG Notes or, if obtained, that any such listing or admission to trading will be maintained during the life of the SDG Notes.

While it is the intention of the Bank to apply the net proceeds of any SDG Notes and obtain and publish the relevant reports, assessments, opinions and certifications in, or substantially in, the manner described under “Use of Proceeds,” there can be no assurance that the Bank will be able to do this. Nor can there be any assurance that any Sustainability Projects will be completed within any specified period or at all or with the results or outcome (whether or not related to the environment) as originally expected or anticipated by the Issuer.

Any such event or failure to apply the net proceeds of any issue of SDG Notes for any Sustainability Projects or to obtain and publish any such reports, assessments, opinions and certifications, will not constitute an event of default under the relevant SDG Notes or give rise to any other claim of a holder of such SDG Notes against the Bank. The withdrawal of any report, assessment, opinion or certification as described above, or any such report, assessment, opinion or certification attesting that the Issuer is not complying in whole or in part with any matters for which such report, assessment, opinion or certification is reporting, assessing, opining or certifying on, and/or any such SDG Notes no longer being listed or admitted to trading on any stock exchange or securities market, as aforesaid, may have a material adverse effect on the value of such SDG Notes and/or result in adverse consequences for certain investors with portfolio mandates to invest in securities to be used for a particular purpose.

Inverse floating rate notes.

Inverse floating rate notes have an interest rate equal to a fixed rate minus a rate based upon a reference. The market values of such Notes typically are more volatile than market values of other conventional floating rate debt securities based on the same reference rate (and with otherwise comparable terms). Inverse floating rate notes are more volatile because an increase in the reference rate not only decreases the interest rate of the Notes, but may also reflect an increase in prevailing interest rates, which further adversely affects the market value of these Notes.

Fixed/Floating rate notes.

Fixed/floating rate notes may bear interest at a rate that the Issuer may elect to convert from a fixed rate to a floating rate, or from a floating rate to a fixed rate. The Issuer’s ability to convert the interest rate will affect the secondary market and the market value of such Notes since the Issuer may be expected to convert the rate when it is likely to produce a lower overall cost of borrowing. If the Issuer converts from a fixed rate to a floating rate, the spread on the fixed/floating rate notes may be less favorable than then prevailing spreads on comparable floating rate notes tied to the same reference rate. In addition, the new floating rate at any time may be lower than the rates on other Notes. If the Issuer converts from a floating rate to a fixed rate, the fixed rate may be lower than then prevailing rates on its Notes.

Indexed notes.

An investment in indexed notes entails significant risks that are not associated with similar investments in a conventional fixed-rate debt security. If the interest rate of a Note is indexed, it may result in an interest rate that is less than that payable on a conventional fixed-rate debt security issued by the Issuer at the same time, including the possibility that no interest will be paid, and, if the principal amount of a Note is indexed, the principal amount payable at maturity may be less than the original purchase price of such indexed note, including the possibility that no principal will be paid (but in no event shall the amount of interest and principal paid with respect to an indexed note be less than zero). The secondary market for indexed notes will be affected by a number of factors, independent of the creditworthiness of the Issuer and the value of the applicable currency, commodity, interest rate or other index, including, but not limited to, the volatility of the applicable currency, commodity, interest rate or other index, the time remaining to the maturity of such indexed notes, the amount outstanding of such indexed notes and market interest rates. The value of the applicable currency, commodity, interest rate or other index depends on a number of interrelated factors, including economic, financial and political events, over which the Issuer has no control.

Additionally, if the formula used to determine the principal amount or interest payable with respect to such indexed notes contains a multiple or leverage factor, the effect of any change in the applicable currency, commodity, interest rate or other index may be increased. The historical experience of the relevant currencies, commodities, interest rate or other indices should not be taken as an indication of future performance of such currencies, commodities, interest rate or other indices during the term of any indexed note. Accordingly, prospective investors should consult their own financial and legal advisors as to the risks entailed by an investment in indexed notes and the suitability of indexed notes in light of their particular circumstances.

Notes issued at a substantial discount.

The market values of securities issued at a substantial discount from their principal amount tend to fluctuate more in relation to general changes in interest rates than do prices for conventional interest-bearing securities. Generally, the longer the remaining term of the Notes, the greater the price volatility as compared to conventional interest-bearing Notes with comparable maturities.

USE OF PROCEEDS

Unless otherwise specified in the applicable Pricing Supplement, the net proceeds from each issue of Notes will be used for the general corporate purposes of the Bank and its subsidiaries. If there is a particular identified use of proceeds, this will be stated in the applicable Pricing Supplement.

In addition, where the “Use of Proceeds” section of the applicable Pricing Supplement are stated to be for “green,” “social” or “sustainability” purposes as described in this “Use of Proceeds” section, the net proceeds from each such issue of SDG Notes will be used as so described.

For any SDG Notes, an amount equal to the net proceeds from each issue of SDG Notes will be separately identified and applied by the Bank in financing or refinancing on a portfolio basis Green Projects and/or Social Projects (each as defined below and as will be further described in the Bank’s Sustainable Development Goals (SDGs) Bond Framework that will be published on its website, as described in the applicable Pricing Supplement (as amended, supplemented, restated or otherwise updated on such website from time to time, the “**SDGs Bond Framework**”)) (Green Projects and Social Projects together, the “**Sustainability Projects**”), including the financing of new or future Sustainability Projects, and the refinancing of existing and on-going Sustainability Projects where originally financed within three years of the issue of the relevant Notes, all in accordance with the SDGs Bond Framework. In the case of Green Notes, such financing or refinancing will be of Green Projects, in the case of Social Notes, such financing or refinancing shall be of Social Projects and, in the case of Sustainability Notes, such financing or refinancing will be of Green Projects and Social Projects.

“**Green Projects**” are projects where at least 80% of (i) the principal amount financed is for the financing of activities falling or (ii) the business of the borrower in respect of the relevant project falls, under the “green eligible categories” described in the SDGs Bond Framework of energy efficiency, sustainable transport, water, waste management and/or renewable energy, each as further described in the SDGs Bond Framework, and, at any time, include any other “green” projects in accordance with any update of the ICMA Green Bond Principles at such time.

The “**ICMA Green Bond Principles**,” at any time, are the Green Bond Principles published by the International Capital Markets Association at such time, which as of the date of this Offering Memorandum are the Green Bond Principles 2018 (<https://www.icmagroup.org/assets/documents/Regulatory/Green-Bonds/June-2018/Green-Bond-Principles—June-2018-140618-WEB.pdf>).

“**Social Projects**” are projects where at least 80% of (i) the principal amount financed is for the financing of activities falling or (ii) the business of the borrower in respect of the relevant project falls, under the “social eligible categories” described in the SDGs Bond Framework of healthcare, education, small and medium enterprise (“**SME**”) financing and microfinancing, and/or affordable housing, each as further described in the SDGs Bond Framework, and, at any time, include any other “social” projects in accordance with any update of the ICMA Social Bond Principles at such time.

The “**ICMA Social Bond Principles**,” at any time, are the Social Bond Principles published by the International Capital Markets Association at such time, which as of the date of this Offering Memorandum are the Social Bond Principles 2020 (<https://www.icmagroup.org/assets/documents/Regulatory/Green-Bonds/June-2020/Social-Bond-PrinciplesJune-2020-090620.pdf>).

The proceeds of any SDG Notes will not be used to finance nuclear power generation, large scale (above 20 megawatt) dam, defense, mining, carbon related or oil and gas activities.

Pending the application of any net proceeds of SDG Notes in financing or refinancing the relevant Sustainability Projects, such proceeds will be applied by the Bank on the same basis as for the management of its liquidity portfolio. The Issuer will endeavor to apply a percentage of the net proceeds of any SDG Notes in financing Sustainability Projects originated in the year of issue of such SDG Notes. If any Sustainability Project to which the net proceeds of any SDG Notes are allocated, ceases or will cease to comply with the relevant categories for such Sustainability Project to constitute a Green Project or a Social Project, as the case may be, the Bank will substitute that Sustainability Project within the relevant portfolio for a compliant Sustainability Project.

Within 12 months of the issue date of each series of SDG Notes and for each year until the maturity or early redemption of those SDG Notes, the Bank will publish a report on its website in respect of that series of SDG Notes as described in the SDGs Bond Framework.

The Bank will obtain an independent verification assessment in respect of the SDGs Bond Framework. This independent verification assessment will be published on the Bank's website.

The Bank further intends to obtain an independent verification assessment from an external verifier for each benchmark series of SDG Notes that either Issuer may issue and will publish that verification assessment on the Bank's website.

In addition, the Bank may request, on an annual basis starting one year after the issue of each series of SDG Notes and until maturity (or until redemption in full) of such Notes, a limited assurance report of the allocation of the net proceeds of those SDG Notes to Green Projects and/or Social Projects, as the case may be, which may be provided by its external auditor or another suitably qualified provider and published on its website.

Neither the SDGs Bond Framework, nor any of the above reports, verification assessments or contents of any of the above websites are incorporated in or form part of this Offering Memorandum.

DIVIDENDS

We paid dividends of Ps.49,344 million for the year ended December 31, 2022, Ps.11,080 million for the year ended December 31, 2021 and Ps.10,275 million for the year ended December 31, 2020.

At a meeting held on February 28, 2020, our shareholders approved the distribution of dividends for Ps.39,100.5 million and authorized each of the Chairman, Vice Chairman and Secretary of our Board of Directors to take the following actions individually: (i) decide on the payment of dividends to shareholders on a pro rata basis; (ii) determine the amount of each dividend payment, which shall not exceed the total amount of distributable dividends authorized by our shareholders' meeting; (iii) announce the dividend payment dates; and (iv) determine the proportion of dividend payment for each of our outstanding shares. From the aforementioned dividends, only Ps.10,275 million were distributed from the "Results from previous years" account and paid on March 24, 2021.

At a meeting held on February 26, 2021, our shareholders approved the distribution of dividends of Ps.25,317 million and authorized each of the Chairman, Vice Chairman and Secretary of our Board of Directors to take the following actions individually: (i) decide on the payment of dividends to shareholders on a pro rata basis; (ii) determine the amount of each dividend payment, which shall not exceed the total amount of distributable dividends authorized by our shareholders' meeting; (iii) announce the dividend payment dates; and (iv) determine the proportion of dividend payment for each of our outstanding shares. From the aforementioned dividends, only Ps.11,080 million were distributed from the "Results from previous years" account and paid on June 14, 2021.

On April 16, 2021, the CNBV issued a recommendation regarding the payment of dividends, repurchase of outstanding shares and any other mechanism or act that implies a transference of economic benefits to shareholders (or to assume a compromise of payment or transfer), substituting the recommendation issued by the CNBV on March 31, 2020. Such new recommendation establishes that, as a result of the COVID-19 pandemic in Mexico, a banking institution may declare dividends to its shareholders from income attributed to the 2019 and 2020 fiscal year, up to 25% of the amount, net, if any, of the sum of the results of such fiscal years; provided that (i) the capital sufficiency (*Ejercicios de suficiencia de Capital*, or "ESC") for the 2021 and 2022 fiscal years indicates that the banking institution will not be subject to preventive action plans to maintain the minimum regulatory capital level, (ii) any banking institution that did not reflect the dividend payment in the ESC justifies to the CNBV its decision change; (iii) after paying the dividends, the net capital ratio is not less than 13%; (iv) the banking institution delivers to the CNBV a report showing that the reserves (including additional reserves) for credit risk are sufficient to endure the expected loss for the year after the dividends have been paid; (v) for the calculation of the dividends to be paid out of the 2019 results, the dividends paid in 2020 should be deducted; and (vi) local systemically important institutions previously justify to the CNBV that the level of dividends to be declared is consistent with the strategy to comply with the minimum net capital ratio under TLAC rules. The 2021 dividend payment was made in accordance with this recommendation.

At a meeting held on February 28, 2022, our shareholders approved the distribution of dividends of up to Ps.49,344 million charged to the prior year' income account in the individual financial statements of the Bank for the year ended December 31, 2021 and authorized each of the Chairman, Vice-Chairman, Secretary and Assistant Secretary of our Board of Directors to take the following actions individually: (i) decide on the payment of dividends to shareholders on a pro rata basis; (ii) determine the amount of each dividend payment, which shall not exceed the total amount of distributable dividends authorized by our shareholders' meeting; (iii) announce the dividend payment dates; and (iv) determine the proportion of dividend payment for each of our outstanding shares. As of the date of this Offering Memorandum, no amount has been declared in respect of such dividends.

On May 6, 2022, the CNBV issued a recommendation regarding the payment of dividends, repurchase of shares and any other benefit for the shareholders of banking institutions, replacing in their entirety its previous recommendations dated April 16, 2021. Under this new recommendation, commercial banks that (a) fall within certain assumptions contained in the recommendation, and (b) are internally required to pay dividends, may now do so without adversely affecting their ability to absorb potential losses that may still arise. With this new recommendation, banking institutions may further promote the development of their corporate purposes and funding, bringing beneficial consequences to the Mexican economy, up to the projected amount of dividends for 2022 in the 2021-2023 ESC; *provided that*: (i) the ESC for the years 2022 and 2023 shows that the banking institution would not be subject to a preventive action plan ("PAP"). Institutions that require a PAP will not be able to pay dividends for 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 CNBV as supervisor, (ii) commercial banks that have not foreseen the payment of dividends in the ESC for the year 2022, and that finally decide to make any distribution of

said dividends during the present 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 CNBV showing that the reserves for credit risk, including the additional reserves, would be sufficient to support the expected losses for the year 2022, and (iv) with respect to local systemically important commercial banks, they must previously justify to the CNBV that the level of dividends that they wish to declare is consistent with a strategy aimed at complying with the minimum capitalization index of the Net Capital Supplement referred to in Article 2 Bis 5 of the Mexican Capitalization Requirements.

The declaration, amount and payment of dividends is determined, subject to the limitations set forth below, by the affirmative vote of a majority of the holders of our voting shares, substantially all of which are owned by GFBM, which, in turn, is controlled by BBVA Spain. We may not declare or pay dividends to GFBM unless we meet the capitalization ratio requirements under the Mexican Capitalization Requirements. See “Supervision and Regulation.”

Under Mexican law, we are required to allocate 10% of our net income (on an unconsolidated basis and after employee profit sharing and other deductions required by Mexican law) to a capital reserve fund until reaching the equivalent of 100% of the paid-in share capital. Such capital reserve fund is not available for distribution except as a stock dividend, until the amount of the legal reserve equals our paid-in capital stock. We may pay dividends only out of earnings (including retained earnings after all losses have been absorbed or paid up) and only after the allocation to the legal reserve fund. We must fund the reserve fund on a stand-alone basis for each company, rather than on a consolidated basis. On December 31, 2022, we were in compliance with the regulations pertaining to our legal reserve. Our subsidiaries are also required to allocate earnings to their respective legal reserve funds before paying dividends to us, provided that their legal reserves must be equal to 5% of their net income until reaching 20% of their paid-in share capital. As of December 31, 2022, our subsidiaries were also in compliance. As of December 31, 2022, we had set aside Ps.6,901 million in legal reserves compared to paid-in capital stock of Ps.24,143 million (without inflation adjustment).

CAPITALIZATION

The following table sets forth our capitalization as of December 31, 2022.

The following table should be read in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” “Use of Proceeds” and our Audited Financial Statements and the notes thereto included elsewhere in this Offering Memorandum.

	As of December 31, 2022 ⁽¹⁾	
	Actual	
	(millions of U.S.\$) ⁽²⁾	(millions of Ps.)
Indebtedness		
Debt securities issued	4,553	88,819
Subordinated bonds issued — preferred indebtedness	1,980	38,623
Total indebtedness.....	6,533	127,442
Stockholders’ equity		
Subscribed capital ⁽³⁾	2,051	40,003
Retained earnings	13,729	267,846
Total subscribed capital and retained earnings	15,780	307,849
Total capitalization	22,312	435,291

(1) Except as disclosed in, and as of the date of, this Offering Memorandum, there has been no material change in our capitalization since December 31, 2022.

(2) Translated at the rate of Ps.19.5089 to U.S.\$1.00, which was the rate on December 31, 2022, as published by *Banco de México* in the Federal Official Gazette on January 2, 2023.

(3) As of December 31, 2022, our authorized capital stock consisted of 9,107,142,859 Series “F” shares and 8,749,999,999 Series “B” shares. Of these shares, 7,737,078,937 Series “F” shares and 7,433,664,076 Series “B” shares were issued and outstanding.

SELECTED CONSOLIDATED FINANCIAL INFORMATION AND OTHER DATA

The selected consolidated financial information presented below should be read in conjunction with “Presentation of Certain Financial and Other Information,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” our Audited Financial Statements and other financial information included elsewhere in this Offering Memorandum.

Audited Financial Information

The selected annual financial information presented below has been derived from and should be read in conjunction with our Audited Financial Statements included elsewhere in this Offering Memorandum. Such annual financial information, unless otherwise specified, is presented in nominal pesos.

Pursuant to publications in the Federal Official Gazette dated December 4, 2020 and December 30, 2021, the CNBV announced the obligation, effective January 1, 2022, for Mexican banks and other financial institutions in Mexico to adopt new accounting standards. In addition, pursuant to the transitory articles of the General Rules Applicable to Mexican Banks, and as a practical solution, Mexican banks may recognize as of the date of initial application, which is January 1, 2022, the cumulative effect of the accounting changes and shall not present retrospectively the effects of such accounting changes in financial statements for prior periods. See Notes 2(a), 3 and 3(d) to our 2022 Financial Statements included elsewhere in this Offering Memorandum for additional details about the new accounting criteria that we use in the classification and measurement of financial assets and liabilities pursuant to the new accounting standards. As a result, financial information as of December 31, 2022 and for the year then ended presented in this Offering Memorandum is not comparable with financial information as of December 31, 2021 or 2020 or for the years then ended or for any prior historical financial period. See “Risk Factors—Risks Relating to Our Business—As a result of the implementation of new accounting criteria for credit institutions in Mexico established by the CNBV, financial information as of and for the year ended December 31, 2022 is not comparable with financial information for prior years.”

	For the year ended December 31,	
	2022 ⁽²⁾ (millions of U.S.\$)	2022 (millions of Ps.)
Statement of comprehensive income:⁽¹⁾		
Interest income	U.S.\$ 11,819	Ps. 230,577
Interest expense	(3,270)	(63,784)
Net interest income	8,549	166,793
Allowance for loan losses	(1,826)	(35,619)
Net interest income adjusted for allowance for loan losses	6,723	131,174
Commissions and fee income	3,152	61,499
Commissions and fee expenses	(1,363)	(26,599)
Financial intermediation income	592	11,553
Other operating income (expense)	(350)	(6,830)
Administrative and promotional expenses	(3,469)	(67,683)
Net operating income	5,285	103,114
Equity in the income of unconsolidated subsidiaries and associated companies	14	268
Income before income tax	5,299	103,382
Current income tax	(1,376)	(26,852)
Income from continuing operations	3,923	76,530
Discontinued operations	—	—
Net income	U.S.\$ 3,923	Ps. 76,530
Other comprehensive income		
Valuation of financial instruments to collect or sell		
Valuation of derivative financial instruments for cash flow hedges	(144)	(2,805)
Remeasurement of employee defined benefits	(29)	(565)
Comprehensive income	(92)	(1,784)
	U.S.\$ 3,658	Ps. 71,376
Net income attributable to:		
Controlling and non-controlling interest	3,924	76,558
Non-controlling interest	(1)	(28)

	For the year ended December 31,	
	2022⁽²⁾	2022
	(millions of U.S.\$)	(millions of Ps.)
Comprehensive income attributable to:		
Controlling and non-controlling interest.....	3,659	71,404
Non-controlling interest.....	(1)	(28)

	As of December 31,	
	2022⁽²⁾	2022
	(millions of U.S. \$ except for percentages)	(millions of Ps., except for percentages)
Balance Sheet Data:⁽¹⁾		
Total assets	U.S. \$ 141,146	Ps. 2,753,601
Cash and cash equivalents.....	14,137	275,795
Margin accounts.....	498	9,718
Investment in securities.....	27,361	533,782
Loan portfolio	77,,550	1,512,906
Allowance for loan losses	(2,542)	(49,588)
Deferred income tax and ESPS, net.....	1,953	38,096
All other assets ⁽³⁾	22,189	432,891
Total funding ⁽⁴⁾	91,650	1,787,996
Deposits (excluding debt securities issued).....	83,110	1,621,392
Debt securities issued.....	4,553	88,819
Subordinated bonds issued.....	1,980	38,623
Banks and other borrowings.....	2,007	39,162
All other liabilities ⁽⁵⁾	34,117	665,572
Total liabilities.....	125,767	2,453,568
Total stockholders' equity	U.S. \$ 15,379	Ps. 300,033

Profitability and Efficiency:		
Return on average assets ⁽⁶⁾	2.94%	2.94%
Return on average equity ⁽⁷⁾	26.27%	26.27%
Net interest margin ⁽⁸⁾	6.41%	6.41%
Efficiency ratio ⁽⁹⁾	32.79%	32.79%
Capitalization:		
Stockholders' equity as a percentage of total assets.....	10.90%	10.90%
Tier 1 Capital as a percentage of risk-weighted assets.....	—	—
Total capital as a percentage of risk-weighted assets.....	—	—
Credit Quality Data:		
Stage 1 and Stage 2 loans ⁽¹⁰⁾	76,233	1,487,229
Stage 3 ⁽⁹⁾	1,222	23,848
Total loans.....	77,456	1,511,077
Loans graded "C," "D" and "E" ⁽¹¹⁾	6,006	117,162
Allowance for loan losses.....	(2,542)	(49,588)
Loan Recovery and Write-offs:		
Stage 3 loans – average balance.....	1,164	22,699
Non-performing loans written-off.....	(1,355)	(26,440)
Charge-offs (net of recoveries) as a percentage of average total loans.....	2.18%	2.18%

- (1) Changes in the presentation of financial information as of and for the year ended December 31, 2022 is the result of the incorporation of new accounting criteria as described above. Financial information as of December 31, 2022 and for the year then ended presented in this Offering Memorandum is not comparable with financial information as of December 31, 2021 or for the year then ended or for any prior historical financial period.
- (2) Translated at the rate of Ps.19.5089 to U.S.\$1.00, which was the rate on December 31, 2022, as published by *Banco de México* in the Federal Official Gazette on January 2, 2023.
- (3) All other assets include: debtors on repurchase/resale agreements, derivatives, valuation adjustments related to financial assets hedged, benefits receivable on securitizations transactions, other accounts receivable, net, foreclosed assets, net, property, furniture and equipment, net, permanent investments and other assets - deferred charges, prepayments and intangibles.
- (4) Total funding includes: deposit funding (excluding debt securities issued), debt securities issued, subordinated bonds issued and banks and other borrowings.
- (5) All other liabilities include: creditors on repurchase/resale agreements, securities lending, sold/pledged collateral-securities lending, derivatives, valuation adjustments related to financial liabilities hedged, other accounts payable and deferred credits and advance payments.
- (6) Return on average assets is equal to net income for the year divided by average assets for the year. Average assets are determined based on the beginning and ending balances for the year.

- (7) Return on average equity is equal to net income for the year divided by average equity for the year. Average equity is determined based on the beginning and ending balances for the year.
- (8) Represents net interest income divided by average assets. Average assets are determined on annualized basis, based on the beginning and end of the period.
- (9) Efficiency ratio is equal to total administrative and promotional expenses as a percentage of the aggregate of net interest income and non-interest income (commission and fees, plus trading income, plus other operating income). For this purpose, net interest income and non-interest income are calculated before allowance for loan losses.
- (10) For information on the different loan stages reflected in our 2022 financial information as a result of new accounting standards we have applied beginning on January 1, 2022, see “Selected Statistical Information—Loan Portfolio—Past Due Loan Portfolio” and Note 10 to our 2022 Financial Statements included elsewhere in this Offering Memorandum.
- (11) See “Selected Statistical Information—Grading of Loan Portfolio.”

	For the Year Ended December 31,			
	2021		2020	
	(millions of Ps.)			
Income Statement Data:				
Interest income.....	Ps.	176,373	Ps.	181,176
Interest expense.....		(42,066)		(55,648)
Net interest income.....		134,307		125,528
Allowance for loan losses		(26,382)		(47,090)
Net interest income adjusted for allowance for loan losses		107,925		78,438
Commissions and fee income.....		50,593		44,096
Commissions and fee expense.....		(20,645)		(16,593)
Financial intermediation income.....		8,100		8,433
Other operating income.....		2,153		1,063
Administrative and promotional expenses		(66,035)		(65,037)
Net operating income		82,091		50,400
Equity in the income of unconsolidated subsidiaries and associated companies.....		88		39
Income before income tax		82,179		50,439
Current income tax.....		(17,557)		(16,777)
Deferred income tax, net.....		(4,348)		2,504
Income before non-controlling interest		60,274		36,166
Non-controlling interest		(14)		1
Net income	Ps.	60,260	Ps.	36,167

	As of December 31,			
	2021		2020	
	(millions of Ps., except for percentages)			
Balance Sheet Data:				
Total assets.....	Ps.	2,453,465	Ps.	2,442,870
Cash and cash equivalents.....		301,088		223,219
Margin accounts.....		8,054		32,261
Investment securities.....		584,297		574,938
Loan portfolio		1,311,545		1,246,933
Allowance for loan losses		(34,810)		(48,236)
Deferred income tax and ESPS, net		26,157		22,416
All other assets ⁽¹⁾		257,135		391,339
Total funding ⁽²⁾		1,672,279		1,520,113
Deposit funding (excluding debt securities issued).....		1,472,807		1,333,019
Debt securities issued.....		87,984		84,052
Subordinated bonds issued.....		72,055		85,181
Banks and other borrowings.....		39,433		17,861
All other liabilities ⁽³⁾		498,518		680,523
Total liabilities		2,170,797		2,200,636
Total stockholders' equity	Ps.	282,668	Ps.	242,234
Profitability and Efficiency:				
Return on average assets ⁽⁴⁾		2.46%		1.57%
Return on average equity ⁽⁵⁾		22.96%		15.83%
Net interest margin ⁽⁶⁾		5.49%		5.47%

	As of December 31,	
	2021	2020
	(millions of Ps., except for percentages)	
Efficiency ratio ⁽⁷⁾	37.84%	40.02%
Capitalization:		
Stockholders' equity as a percentage of total assets	11.52%	9.92%
Tier 1 Capital as a percentage of risk-weighted assets	—	—
Total Capital as a percentage of risk-weighted assets	—	—
Credit Quality Data:		
Total current loan portfolio	1,288,845	1,209,449
Total past due loan portfolio	22,699	37,484
Total loans.....	1,311,545	1,246,933
Loans graded "C1," "C2," "D" and "E" ⁽⁸⁾	98,997	95,862
Allowance for loan losses.....	(34,810)	(48,236)
Loan Recovery and Write-offs:		
Past due loans — average balance.....	30,092	32,456
Past due loans written-off.....	37,687	32,549
Recoveries in respect of past due loans	(1,926)	(1,332)
Recovered amounts as a percentage of average past due loans	6.40%	4.10%

- (1) All other assets include: debtors on repurchase/resale agreements, derivatives, valuation adjustments related to financial assets hedged, other accounts receivable, net, foreclosed assets, net, property, furniture and equipment, net, permanent investments and other assets - deferred charges, prepayments and intangibles.
- (2) Total funding includes: deposit funding (excluding debt securities issued), debt securities issued, subordinated bonds issued and banks and other borrowings.
- (3) All other liabilities include: creditors on repurchase/resale agreements, securities lending, sold/pledged collateral-securities lending, derivatives, valuation adjustments related to financial liabilities hedged, other accounts payable and deferred credits and advance payments.
- (4) Return on average assets is equal to net income for the year divided by average assets for the year. Average assets are determined based on the beginning and ending balances for the year.
- (5) Return on average equity is equal to net income for the year divided by average equity for the year. Average equity is determined based on the beginning and ending balances for the year.
- (6) Represents net income divided by average assets. Average assets are determined on annualized basis, based on the beginning and end of the period.
- (7) Efficiency ratio is equal to total administrative and promotional expenses as a percentage of the aggregate of net interest income and non-interest income (commission and fees, plus trading income, plus other operating income). For this purpose, net interest income and non-interest income are calculated before allowance for loan losses.
- (8) See "Selected Statistical Information—Grading of Loan Portfolio."

Other Financial Data and Ratios

The selected financial data and ratios presented below have been derived from and should be read in conjunction with our Audited Financial Statements, together with the notes thereto, and the other financial information included elsewhere in this Offering Memorandum.

	As of or for the Year Ended December 31, 2022⁽²⁾
Credit Quality Ratios:	
Allowance for loan losses as a percentage of total loans	3.28%
Allowance for loan losses as a percentage of total stage 3 loans ⁽¹⁾	207.93%
Allowance for loan losses as a percentage of loans graded "C1," "C2," "D" and "E" ⁽¹⁾	42.32%
Stage 3 loans as a percentage of total loans.....	1.58%
Net stage 3 loans (total stage 3 loans less allowance for loan losses) as a percentage of net total loans (net current loans plus net stage 3 loans)	1.79%
Net stage 3 loans (total stage 3 loans less allowance for loan losses) as a percentage of stockholders' equity	8.58%
Allowance for loan losses as a percentage of average total loans.....	2.99%
Charge-offs (net of recoveries) as a percentage of average total loans.....	2.18%
Loans graded "C1," "C2," "D" and "E" as a percentage of total loans ⁽¹⁾	7.74%

- (1) For information on the different loan stages reflected in our 2022 financial information as a result of new accounting standards we have applied beginning on January 1, 2022, see “Selected Statistical Information—Loan Portfolio—Past Due Loan Portfolio” and Note 10 to our 2022 Financial Statements included elsewhere in this Offering Memorandum.
- (2) See “Selected Statistical Information—Grading of Loan Portfolio.”

	As of or for the Years Ended December 31,	
	2021	2020
Credit Quality Ratios:		
Allowance for loan losses as a percentage of total loans	2.65%	4.02%
Allowance for loan losses as a percentage of total past due loans	153.35%	128.68%
Allowance for loan losses as a percentage of loans graded “C1,” “C2,” “D” and “E” ⁽¹⁾	35.16%	43.65%
Total past due loans as a percentage of total loans	1.73%	3.13%
Net past due loans (total past due loans less allowance for loan losses) as a percentage of net total loans (net current loans plus net past due loans).....	0.93%	0.34%
Net past due loans (total past due loans less allowance for loan losses) as a percentage of stockholders’ equity	4.28%	1.99%
Allowance for loan losses as a percentage of average total loans	3.25%	3.03%
Charge-offs (net of recoveries) as a percentage of average total loans	2.62%	2.35%
Loans graded “C1,” “C2,” “D” and “E” as a percentage of total loans ⁽¹⁾	7.55%	7.35%

- (1) See “Selected Statistical Information—Grading of Loan Portfolio.”

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The financial information presented in this section should be read in conjunction with our Audited Financial Statements included elsewhere in this Offering Memorandum. Our Audited Financial Statements have been prepared in accordance with Mexican Banking GAAP, which differs in significant respects from U.S. GAAP and IFRS. For a discussion of significant differences between Mexican Banking GAAP and U.S. GAAP and Mexican Banking GAAP and IFRS, see "Annex A—Summary of Significant Differences Between Mexican Banking GAAP and U.S. GAAP" and "Annex B—Summary of Significant Differences Between Mexican Banking GAAP and IFRS," respectively. No reconciliation of our Audited Financial Statements to U.S. GAAP has been prepared for this Offering Memorandum. Any such reconciliation could result in material quantitative differences. See "Presentation of Certain Financial and Other Information."

Economic Environment

The COVID-19 pandemic had a material impact on global economic activity, causing an unprecedented economic recession. 2021 was a year of economic growth recovery, due to government programs implemented around the world consisting of expansionary fiscal and monetary policies that helped mitigate the negative impacts on economic growth produced by the COVID-19 pandemic. In addition, the increase in the availability of vaccines has led to the gradual reestablishment of the opening of economic activities worldwide, which boosted private consumption, investment and trade. However, the stronger-than-expected recovery of economic activity in some countries around the world, together with higher energy prices and bottlenecks in global production chains, have led to higher-than-expected increases in inflation rates. The foregoing persisted, and increased significantly during 2022, driven by the war in Ukraine.

Mexico was not exempt from suffering the adverse impact on the economy derived from the closure of activities to contain the impacts of the COVID-19 pandemic in 2020, so that GDP declined by 8.5% with respect to the previous year. However, like the world economy in 2022 and 2021, a significant recovery was observed in Mexico during these years, as vaccine availability increased, generating the gradual opening of non-essential economic activities. This was reflected in a GDP growth of 5.0% and 3.1% in Mexico during 2021 and 2022, respectively.

Meanwhile, inflation in 2022 and 2021 was affected by global and local price pressures, mainly higher energy prices, disruptions in supply chains and prices related to pandemic costs, leading to an annual headline inflation of 7.4% and 7.9% at the end of December 2021 and 2022, respectively. In September 2022, headline inflation was 8.7%, the highest level since January 2001, well above *Banco de México*'s target of 3% (+/- 1%) and the 3.4% figure posted at the end of December 2020. These developments prompted *Banco de México* to raise the benchmark rate from 4.0% to 4.25% in June 2021, subsequently continuing to raise the rate until closing December 2022 at 10.50%. See also "—Effects of Changes in Interest Rates."

Effect of Tax Legislation

During 2022, 2021 and 2020, the income tax rate applicable to the Bank under the Income Tax Law was 30%, and we cannot predict if changes may occur in the foreseeable future.

Effects of Changes in Interest Rates

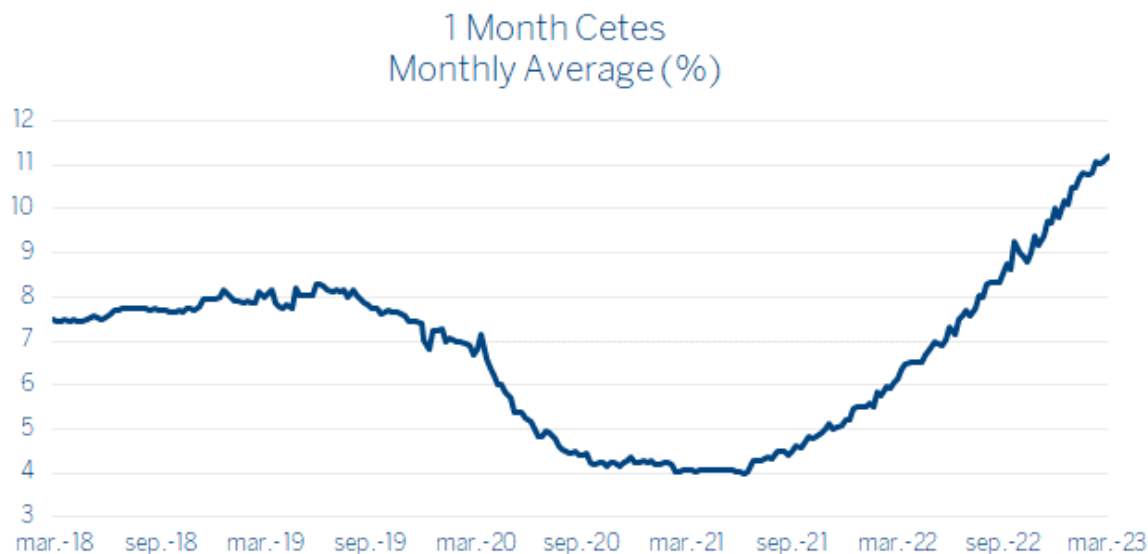
Interest rate fluctuations in Mexico have a significant effect on our interest income, interest expense and trading income. Changes in market interest rates may lead to temporary repricing gaps between our interest-earning assets and our interest-bearing liabilities. Most of our interest-earning assets and interest-bearing liabilities in foreign currency carry floating interest rates or are subject to frequent repricing. Upward or downward adjustments of the interest rates on our assets and liabilities generally occur between one and three months. Repricing generally limits the effects of net exposures that regularly occur upon movements in interest rates. See "Selected Statistical Information—Interest Rate Sensitivity of Assets and Liabilities."

During the periods discussed below, the benchmark market interest rate in Mexico was the annual interest rate paid in connection with primary offerings of Cetes, which are Mexican government peso-denominated treasury bills, with 28-day maturities.

During 2022, the monetary rate increased 5 percentage points to 10.50% from the December 2021 close of 5.50%. In the year ended December 31, 2022, 28-day Cetes and 91-day Cetes averaged 7.66% and 8.28%, respectively.

During 2021, the monetary rate increased 1.25 percentage points to 5.50% from the December 2020 close of 4.25%. In the year ended December 31, 2021, 28-day Cetes and 91-day Cetes averaged 4.45% and 4.66%, respectively.

During 2020, the monetary rate decreased 3 percentage points to 4.25% from the December 2019 close of 7.25%. For the year ended December 31, 2020, 28-day Cetes and 91-day Cetes averaged 5.33% and 5.33%, respectively.



Source: Bloomberg.

- During 2020, *Banco de México* decreased rates by 300 basis points to 4.25%. From January to September, *Banco de México* lowered the rate by 50 basis points at almost all of the meetings. The last three months of the year, the rate remained unchanged. The main reason for the fast reduction in rates was the COVID-19 pandemic. During 2020, the Board of Governors of the Federal Reserve System (the “**Federal Reserve Board**”) lowered the federal funds rate by 150 basis points. In December 2020, 28-day Cetes and 91-day Cetes averaged 4.24% and 4.29%, respectively.
- During 2021, *Banco de México* raised the interest rate by 125 basis points to 5.50%. From January to February, *Banco de México* lowered the rate by 25 basis points, it had a four-month monetary pause and in June, it began a cycle of hiking rates. The principal reasons for the increase were concerns regarding inflation pressures and the uncertainties generated by monetary policy of the Federal Reserve Board. In December 2021, 28-day Cetes and 91-day Cetes averaged 5.48% and 5.88%, respectively.
- During 2022, *Banco de México* raised the interest rate by 500 basis points to 10.50%. In each of the eight meetings it held in 2022, the rate was raised by either 50 basis points or 75 basis points. The principal reasons for the increase were concerns regarding inflation pressures and the uncertainties generated by monetary policy of the Federal Reserve Board. In December 2022, 28-day Cetes and 91-day Cetes averaged 10.15% and 10.68%, respectively.

Effects of Restructured Credits

Restructured loans remain classified as past due until at least three payments on such loans have been made. Loans restructured under Mexican government support programs are classified as current loans.

When we restructure credits, we reclassify current accrued interest, past due principal and past due interest as current principal, see Note 10 to our Audited Financial Statements included elsewhere in this Offering Memorandum. If the restructuring results in a sufficient improvement in the quality of a credit, we may also maintain a smaller allowance for loan loss with respect to such credit and use any excess allowance to reduce the amount of additional provisions on other credits.

The depreciation of the peso in late 1994 and the subsequent economic crisis in Mexico led to the introduction by the Mexican government of debtor support programs that had significant adverse effects on our business at that

time. Substantially all of the outstanding debtor support programs were merged at the beginning of 1999 into a single industry-wide program known as Punto Final, which was adopted by the Mexican government and the Mexican Banking Association in December 1998 and became effective on January 1, 1999. On July 15, 2010, the Mexican government and certain credit institutions (with the participation of the Mexican Banking Association) entered into an agreement for the early termination of certain debtor support programs (*Convenio para extinguir anticipadamente los programas de apoyo para deudores*). As a result of the international financial crisis in 2008-2010, the average income of Mexican households decreased by 12.3%. The National Household Income and Expenditure Survey reported that the quarterly average household income fell from Ps.39,823 (about U.S.\$3,400) in 2008 to Ps.34,936 (just over U.S.\$2,900) in 2010.

We and many other financial institutions in Mexico created programs to support our respective retail portfolios, particularly mortgage portfolios, by offering alternative payment arrangements to those customers with temporary liquidity problems. With respect to revolving loans, in 2006, we began offering fixed payment plans and amortizing debt maturities based on the repayment capacity of customers. With respect to consumer loans, we extended the remaining balances by up to 60 months.

On March 26, 2020, as a result of the COVID-19 pandemic and the subsequent negative impact on the Mexican economy, the CNBV issued temporary special accounting criteria applicable to credit institutions with respect to their consumer, housing and commercial loan portfolio, for customers that were negatively affected as a result of such negative impact on the economy. The CNBV further extended the validity of this special accounting criteria until July 31, 2020.

We adopted this special accounting criteria on February 28, 2020, pursuant to CNBV's rules, in support of our affected customers in accordance with the guidelines published by the CNBV. Through July 31, 2020, we had restructured 1,562,010 credits, mainly in the credit card, consumer and mortgage portfolios, pursuant to this special accounting criteria.

On September 24, 2020 and October 8, 2020, the CNBV issued new accounting facilities for restructuring and renewals, which provide flexibility to the current accounting criteria applicable to restructured or renewed loans, and facilitates estimations of credit and capital risks.

Recent Changes in Mexican Banking GAAP

In the Federal Official Gazette published on December 21, 2021, the CNBV announced the obligation, effective January 1, 2022, to adopt the following accounting standards (“**MFRS**”) issued by the Mexican Board for the Research and Development of Financial Information Standards (*Consejo Mexicano para la Investigación y Desarrollo de Normas de Información Financiera*):

- 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 certain MFRS, the following MFRS 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 MFRS:
 - C-1 “Recognition and derecognition of financial assets”
 - C-3 “Related parties”
 - C-4 “Information by segment”

Pursuant to publications in the Federal Official Gazette dated December 4, 2020 and December 30, 2021, the CNBV announced the obligation, effective January 1, 2022, for Mexican banks and other financial institutions in Mexico to adopt new accounting standards. In addition, pursuant to the transitory articles of the General Rules Applicable to Mexican Banks, and as a practical solution, Mexican banks may recognize as of the date of initial application, which is January 1, 2022, the cumulative effect of the accounting changes and shall not present retrospectively the effects of such accounting changes in financial statements for prior periods. See Notes 2(a), 3 and 3(d) to our 2022 Financial Statements included elsewhere in this Offering Memorandum for additional details about the new accounting criteria that we use in the classification and measurement of financial assets and liabilities pursuant to the new accounting standards. As a result, financial information as of December 31, 2022 and for the year then ended presented in this Offering Memorandum is not comparable with financial information as of December 31, 2021 or 2020 or for the years then ended or for any prior historical financial period. See “Risk Factors—Risks Relating to Our Business—As a result of the implementation of new accounting criteria for credit institutions in Mexico established by the CNBV, financial information as of and for the year ended December 31, 2022 is not comparable with financial information for prior years.”

Critical Accounting Policies

The following is a description of certain key accounting policies on which our financial condition and results of operations are dependent. These key accounting policies generally involve complex quantitative analyses or are based on subjective judgments or decisions. In the opinion of our management, the most critical accounting policies under Mexican Banking GAAP are those related to the establishment of allowances for loan losses, valuation of securities and derivatives, valuation of deferred income tax assets and employee retirement obligations. For a full description of our accounting policies, see Note 3 to our Audited Financial Statements included elsewhere in this Offering Memorandum.

Beginning on January 1, 2022, new accounting criteria were incorporated for the Mexican financial system, in accordance with Mexican Banking GAAP, including changes in the financial statements and in the main indicators. As a result, financial information as of and for the year ended December 31, 2022 is not comparable with the information for 2021 and 2020, nor with that published in prior years. See Notes 2(a), 3 and 3(d) to our 2022 Financial Statements included elsewhere in this Offering Memorandum for additional details about the new accounting criteria that we use in the classification and measurement of financial assets and liabilities pursuant to the new accounting standards.

Allowances for Loan Losses

Our loan loss reserve levels are calculated in accordance with the rules for the classification and rating of loan portfolios of Mexican banks and the creation of related reserves established in the General Rules Applicable to Mexican Banks (the “**Loan Classification and Rating Rules**”), which require that the portfolios of commercial, consumer and mortgage loans be rated every month.

Allowance for credit losses for our commercial loan portfolio are calculated mainly based on the most important characteristics of the client and the loan. The Loan Classification and Rating Rules require that we follow a methodology that incorporates an assessment of the client’s payment capacity, the period and amount of the loan and the guarantees related to the loan rating analysis to estimate a probable loss and calculate the percentage of necessary reserves. The Loan Classification and Rating Rules allow us to use our own methodology, following certain parameters, to assign a risk rating to each client. Although we have used an internal methodology since May 2014, we apply the methodology of the CNBV to a small group of loans to be able to calculate 100% of the credits, which applies to all loans with a balance equal to or greater than 14,000,000 UDI. Commercial loans must, at the same time, be classified by sector as financial entities, states and municipalities or investment projects, or by volume of sales as

small, medium or large corporations. Once we classify these commercial loans according to the above categories, we calculate the expected loss based on the probability of default, the severity of the loss and the exposure to default, according to the established parameters and as approved by the CNBV in the applicable annexes. If our analysis of the classification of a commercial loan changes from one period to another, we adjust the calculation of the amount of our loan loss reserve accordingly.

In the case of loans to individuals, including mortgage loans and other consumer loans, the allowance for credit losses is determined according to a classification based on the default status of such loans and the loan loss rates prescribed for such classifications. Determination of the ratings for these types of loans are made monthly.

The determination of the allowance for credit losses requires the judgment of management. The calculation resulting from the use of the estimated and prescribed loan loss percentages is indicative of future losses. The differences between the reserve estimate for credit losses and actual loss will be reflected in our financial statements at the time of cancellation.

We believe our loan loss provision is adequate as of the date hereof to cover all known or knowable losses by our loan and credit portfolio. Because of the changing conditions of our borrowers and the markets in which we operate, it is possible that significant adjustments to the loan loss reserve for changes in estimates of our client's ability to pay and our ability to collect on loans will be made in the short term.

Securities and Derivatives

Our consolidated balance sheet reflects certain assets and liabilities related to our securities and derivatives portfolio at their estimated fair value. Such amounts are based on either listed market prices or estimated values derived by utilizing dealer quotes or internally generated modeling techniques. As market conditions change, price vendors generally make adjustments to the fair value of securities and derivatives to reflect those conditions. Future sales of these securities will reflect the market conditions at the time and may differ significantly from the estimated fair market value reflected on the balance sheet.

Employee Retirement Obligations

Our employee retirement obligations include employee pension plans, seniority premium benefits, life insurance payments and severance indemnities. The determination of our obligations and expenses is dependent on our selection of certain assumptions used by actuaries in calculating such amounts. We evaluate our assumptions at least annually, and our assumptions depend on Mexico's economic circumstances.

In accordance with Mexican Banking GAAP, actual results that differ from our assumptions (actuarial gains or losses) are accumulated and amortized over future periods recognized immediately in the period when they arise, and, therefore, generally affect our recognized expenses and recorded obligations in these future periods. While we believe that our assumptions are appropriate, significant differences in our actual experience or significant changes in our assumptions may materially affect our employees' retirement obligations and our future expenses. See Note 3 to our Audited Financial Statements included elsewhere in this Offering Memorandum.

Deferred Tax Assets

The Bank has recognized deferred tax assets resulting from the temporal differences between the book value and tax value of certain assets and liabilities by applying the correspondent expected income tax rate applicable at the time of the recovery. Based on management projections, we believe that the balance of the Bank's deferred taxes coming from the allowance for loan losses will be recovered in the short-to-medium term.

Results of Operations

Year Ended December 31, 2022

Net Interest Income

The following table sets forth the components of our net interest income:

	For the Year Ended December 31, 2022
	(millions of Ps.)
Interest Income:	
Interest and fees on loans	175,231

	For the Year Ended December 31, 2022
	(millions of Ps.)
Interest on securities.....	37,871
Interest on cash and due from banks	7,607
Interest on repurchase agreements	4,024
Interest on margin accounts.....	127
Interest on hedging financial instruments	2,987
Interest on subordinated obligations.....	47
Fees charged on initial loan.....	2,114
Other	569
Total interest income.....	230,577
Interest Expense:	
Interest on demand deposits	30,907
Interest on derivative financial instruments for trading	1,632
Interest on bank and other borrowings	2,872
Interest on hedging financial instruments.....	607
Interest and premiums on repurchase/resale agreements and securities lending	20,703
Expenses on loan originations.....	1,561
Interest on subordinated obligations.....	3,656
Other	1,846
Total interest expense.....	63,784
Net interest income.....	166,793

Net interest income was Ps.166,793 million for the year ended December 31, 2022. This level was primarily attributable to the high interest rate environment and an increase in deposits, mixed with a higher weight in demand deposits.

Interest Income

Interest income was Ps.230,577 million for the year ended December 31, 2022. This interest income level is mainly due to the high interest rate environment and an improvement in the mix in the portfolio to include more profitable segments.

Interest and fees on loans was Ps.175,231 million for the year ended December 31, 2022. This levels of interest and fees on loans was primarily attributable to a mix in the portfolio to include more profitable segments.

Interest on securities was Ps.37,871 million for the year ended December 31, 2022, mainly explained by the environment of higher interest rates.

Interest on repurchase agreements was Ps.4,024 million for the year ended December 31, 2022. This level of interest in repurchase agreements is mainly explained by a reduction in repurchasing option activity.

Interest Expense

Interest expense was Ps.63,784 million for the year ended December 31, 2022. This level of interest expense was mainly explained by an improvement in the deposit mix that had a favorable impact on our funding cost.

Interest on demand deposits was Ps.30,907 million for the year ended December 31, 2022. This level was primarily attributable to an increase in the volume of demand and time deposits.

Allowance for Loan Losses

The allowance for loan losses charged against earnings was Ps.35,619 million for the year ended December 31, 2022, which includes the effect of the release of previously created provisions that were taken in connection with the COVID-19 pandemic related provisions and the constant growth of the portfolio.

Non-Interest Income

The following table sets forth the components of our non-interest income:

	For the Year Ended December 31, 2022
	(millions of Ps.)
Commissions and Fees:	
Bank fees.....	7,834
Cash management and fund transfers.....	(1,572)
Credit & debit cards.....	21,707
Investment funds.....	4,354
Effective credit card reward points.....	(3,783)
Promotion fund collateral.....	(1,332)
Insurance ⁽¹⁾	2,810
Credit placement.....	(1,102)
Appraisals.....	(413)
Purchase sale of securities.....	(171)
Other.....	6,568
Total commissions and fees.....	34,900
Trading Income:	
Valuation Result:	
Derivatives for trading purposes.....	(2,022)
Derivatives for hedging purposes.....	(39)
Embedded derivatives.....	269
Currency.....	13,697
Investments in financial instruments.....	(879)
Total valuation result.....	11,026
Purchase-sale result:	
Derivatives for trading purposes.....	481
Derivatives for hedging purposes.....	25
Embedded derivatives.....	432
Currency.....	—
Investments in securities.....	(411)
Total purchase-sale result.....	527
Result from intermediation.....	11,553
Other operating income.....	—
Total non-interest income.....	46,453

(1) These are services provided through GFBM affiliates.

Total commissions and fees, net were Ps.34,900 million for the year ended December 31, 2022. This level was mainly the result of a higher volume of transactions from credit and debit cards, as well as a higher number of digital clients, as digital products generally do not generate commissions for transactions or services. This level was also related to higher transaction volumes of our wholesale customers.

Credit and debit card fees were Ps.21,707 million for the year ended December 31, 2022. This level was due to higher transaction volumes, representing higher billing of our customers with credit cards. Bank fees and investment funds fees received were Ps.7,834 million and Ps.4,354 million for the year ended December 31, 2022.

Financial intermediation income was Ps.11,553 million for the year ended December 31, 2022. This level was a result of the volatility observed in the financial markets.

Administrative and Promotional Expenses

The following table sets forth the components of our administrative and promotional expenses:

	For the Year Ended December 31, 2022
	(millions of Ps.)
Salaries and employee benefits.....	27,549
Administrative expenses.....	22,012
Rent, depreciation and amortization.....	14,286

	For the Year Ended December 31, 2022
	(millions of Ps.)
Taxes other than income taxes.....	3,836
Total administrative and promotional expenses	67,683

Total administrative and promotional expenses were Ps.67,683 million for the year ended December 31, 2022. Expense evolution is mainly explained by our focus on optimizing our resources throughout the year, without negatively affecting the quality of our processes.

Salaries and employee benefits expenses were Ps.27,549 million for the year ended December 31, 2022. This was mainly explained by adjustment in salaries due to inflation levels.

Administrative expenses were Ps.22,012 million for the year ended December 31, 2022. This was in line with our resources optimization strategy.

Rent, depreciation and amortization expenses were Ps.14,286 million for the year ended December 31, 2022. This level was mainly due to reflecting an increase in the rental rates and also in line with the increase in inflation.

Taxes other than income taxes were Ps.3,836 million for the year ended December 31, 2022. This level was primarily attributable to a decrease in VAT tax expenses given lower billing from our subsidiaries.

Total Income Taxes

Total income taxes were Ps.26,852 million for the year ended December 31, 2022. The effective tax rate for the year ended December 31, 2022 was 26.04%.

Net Income

As a result of the factors described above, our net income was Ps.76,530 million for the year ended December 31, 2022.

Year Ended December 31, 2021 Compared to the Year Ended December 31, 2020

Net Interest Income

The following table sets forth the components of our net interest income:

	For the Year Ended December 31,	
	2021	2020
	(millions of Ps.)	
Interest Income:		
Interest and fees on loans.....	138,310	141,017
Interest on securities	30,969	31,080
Interest on cash and due from banks.....	2,599	2,945
Interest on repurchase agreements.....	1,993	3,341
Interest on margin accounts.....	61	145
Fees charged on initial loan	1,831	1,997
Other.....	610	651
Total interest income	176,373	181,176
Interest Expense:		
Interest on demand deposits.....	6,224	13,245
Interest on time deposits	7,991	9,734
Bank bonds	3,849	4,969
Interest on interbank loans and loans from other entities.....	1,380	1,257
Interest on subordinated debentures.....	2,954	4,986
Interest on repurchase agreements.....	16,138	19,067
Other.....	3,530	2,390
Total interest expense	42,066	55,648
Net interest income	134,307	125,528

Net interest income was Ps.134,307 million for the year ended on December 31, 2021, as compared to Ps.125,528 million for the year ended December 31, 2020, an increase of Ps.8,779 million, or 7.0%. This increase was primarily attributable to the improvement in the deposits mixed with a higher weight in demand deposits. The margin

has also benefited from a favorable base comparison, considering that during 2020 the impact of a lower income derived from support plans for customers affected by the pandemic was recorded.

Interest Income

Interest income was Ps.176,373 million for the year ended December 31, 2021, compared to Ps.181,176 million for the year ended December 31, 2020, a decrease of Ps.4,803 million, or 2.7%. This decrease was the result of a mix in the portfolio to include less profitable segments.

Interest and fees on loans was Ps.138,310 million for the year ended December 31, 2021, compared to Ps.141,017 million for the year ended December 31, 2020, a decrease of Ps.2,707 million, or 1.9%. This decrease was primarily attributable to less interest income on our commercial portfolio.

Interest on securities was Ps.30,969 million for the year ended December 31, 2021, compared to Ps.31,080 million for the year ended December 31, 2020, a decrease of Ps.111 million compared to the previous year, mainly explained by lower activity in securities.

Interest on repurchase agreements was Ps.1,993 million for the year ended December 31, 2021, compared to Ps.3,341 million for the year ended December 31, 2020, a decrease of Ps.1,348 million, or 40.3%, due to a reduction in repurchasing option activity.

Interest Expense

Interest expense was Ps.42,066 million for the year ended December 31, 2021, compared to Ps.55,648 million for the year ended December 31, 2020, a decrease of Ps.13,582 million, or 24.4%. This decrease was mainly explained by an improvement in the deposit mix that had a favorable impact on our funding cost. In terms of year-end balances, time deposits as a percentage of total deposits decreased to 14%, compared to 17% in 2020, while demand deposits represented 80% as of December 31, 2021, compared to 77% as of December 31, 2020.

Interest on demand deposits, time deposits, and bank bonds was Ps.18,064 million for the year ended December 31, 2021, compared to Ps.27,948 million for the year ended December 31, 2020, a decrease of Ps.9,884 million, or 35.4%. This decrease was primarily attributable to a decrease in the volume of time deposits.

Allowance for Loan Losses

The allowance for loan losses charged against earnings was Ps.26,382 million for the year ended December 31, 2021, compared to Ps.47,090 million for the year ended December 31, 2020, a decrease of Ps.20,708 million, or 44.0%. This decrease was due to the creation of Ps.6,544 million in prudential (additional) reserves in the first quarter of 2020 to address the possible deterioration of the performing loan portfolio due to the application of the support programs and their subsequent release in 2021, derived from our active risk management of the loan portfolio and positive payment compliance by our clients during the year.

Non-Interest Income

The following table sets forth the components of our non-interest income:

	For the Year Ended December 31,	
	2021	2020
	(millions of Ps.)	
Commissions and Fees:		
Account management	898	2,332
Cash management and fund transfers	5,028	3,384
Credit & debit cards	16,895	12,384
ATMs	1,310	1,214
Mutual fund management ⁽¹⁾	4,588	4,694
Insurance ⁽¹⁾	2,210	1,865
Other	(981)	1,630
Total commissions and fees, net	29,948	27,503
Trading Income:		
Valuation Result:		
Derivatives	5,807	(814)
Foreign currency	(4,676)	(6,326)
Securities investments	(1,185)	(1,078)
Total valuation result	(54)	(8,218)

	For the Year Ended December 31,	
	2021	2020
	(millions of Ps.)	
Purchase-sale result:		
Derivatives	348	7,993
Foreign currency	7,338	6,056
Securities investments	468	2,602
Total purchase-sale result.....	8,154	16,651
Financial intermediation income.....	8,100	8,433
Other operating income	2,153	1,063
Total non-interest income.....	40,201	36,999

(1) These are services provided through GFBM affiliates.

Total commissions and fees, net were Ps.29,948 million for the year ended December 31, 2021, compared to Ps.27,503 million for the year ended December 31, 2020, an increase of Ps.2,445 million, or 8.9%. This increase was mainly the result of a higher volume of transactions from credit and debit cards, increased lending activity and higher fees from mutual funds due to an increase in assets under management.

Account management fees were Ps.898 million for the year ended December 31, 2021, compared to Ps.2,332 million for the year ended December 31, 2020, a decrease of Ps.1,434 million, or 61.5%. This decrease was the result of a higher number of digital clients, as digital products generally do not charge commissions for transactions or services.

Cash management and fund transfer fees totaled Ps.5,028 million for the year ended December 31, 2021, compared to Ps.3,384 million for the year ended December 31, 2020, an increase of Ps.1,644 million. This increase was mainly related to higher transaction volumes of our wholesale customers.

Credit card fees were Ps.16,895 million for the year ended December 31, 2021, compared to Ps.12,384 million for the year ended December 31, 2020, an increase of Ps.4,511 million, or 36.4%. This increase was due to higher transaction volumes (higher billing of our customers with credit cards).

Financial intermediation income was Ps.8,100 million for the year ended December 31, 2021, compared to Ps.8,433 million for the year ended December 31, 2020, a decrease of Ps.333 million, or 3.9%, as a result of the volatility observed in the financial markets as well as from an unfavorable comparison linked to higher income from consumer price index-linked bonds during 2020.

Other operating income totaled Ps.2,153 million for the year ended December 31, 2021, compared to Ps.1,063 million for the year ended December 31, 2020, an increase of Ps.1,090 million, or 102.5%, mainly explained by the positive effect derived from the transformation of the productive model, lower losses and the favorable comparison of the branch reorganization plan carried out in 2020.

Administrative and Promotional Expenses

The following table sets forth the components of our administrative and promotional expenses:

	For the Year Ended December 31,	
	2021	2020
	(millions of Ps.)	
Administrative and operational expenses	42,692	42,173
Rent, depreciation and amortization.....	12,736	12,067
Taxes other than income taxes	4,215	4,494
Contribution to the IPAB	6,392	6,303
Total administrative and promotional expenses	66,035	65,037

Total administrative and promotional expenses were Ps.66,035 million for the year ended December 31, 2021, compared to Ps.65,037 million for the year ended December 31, 2020, an increase of Ps.998 million, or 1.5%. Expenses remained relatively stable due to the Bank's focus on optimizing its resources throughout the year, without negatively affecting the quality of its processes.

Administrative and operational expenses were Ps.42,692 million for the year ended December 31, 2021, compared to Ps.42,173 million for the year ended December 31, 2020, an increase of Ps.519 million, or 1.2%. This

marginal increase is principally the result of an increase in personnel expenses as a result of the entry into force of the reforms to Mexican labor laws prohibiting subcontracting.

Rent, depreciation and amortization expenses were Ps.12,736 million for the year ended December 31, 2021, compared to Ps.12,067 million for the year ended December 31, 2020, an increase of Ps.669 million, or 5.5%, reflecting an increase in the rental rates and also in line with the increase in inflation.

Taxes other than income taxes were Ps.4,215 million for the year ended December 31, 2021, compared to Ps.4,494 million for the year ended December 31, 2020, a decrease of Ps.279 million, or 6.2%. This decrease was primarily attributable to a decrease in VAT tax expenses given lower billing from our subsidiaries.

Expenses related to contributions to the IPAB were Ps.6,392 million for the year ended December 31, 2021, compared to Ps.6,303 million for the year ended December 31, 2020, an increase of Ps.89 million, or 1.4%. This increase was attributable to an increase of 10.1% in the volume of deposits in the year ended December 31, 2021, as compared to 2020.

Current and Deferred Income Tax

Current and deferred income tax was Ps.21,905 million for the year ended December 31, 2021, compared to Ps.14,273 million for the year ended December 31, 2020, an increase of Ps.7,632 million, or 53.5%, as a result of lower deferred taxes during 2021 compared to 2020. The effective tax rate for the year ended December 31, 2021 was 26.7%, compared to 28.3% during the year ended December 31, 2020.

Net Income

As a result of the factors described above, our net income was Ps.60,260 million for the year ended December 31, 2021, compared to Ps.36,167 million for the year ended December 31, 2020, an increase of Ps.24,093 million, or 66.6%.

Financial Position

The following discussion compares our consolidated financial position as of the years ended December 31, 2022, 2021 and 2020. Unless otherwise specified, the information is presented in nominal pesos.

Assets

As of December 31, 2022, we had total assets of Ps.2,753,601 million. This level of assets was mainly explained by a higher credit portfolio.

As of December 31, 2021, we had total assets of Ps.2,453,465 million, compared to Ps.2,442,870 million as of December 31, 2020, representing an increase of 0.4%. This increase was mainly explained by a higher credit portfolio and an annual increase of 34.9% in our cash and cash equivalents.

As of December 31, 2020, we had total assets of Ps.2,442,870 million.

Total Performing Loans

As of December 31, 2022, we had a total current loan portfolio of Ps.1,487,229 million. The level of our total current loan portfolio was mainly due to a significant recovery in economic activity that encouraged greater demand for credit. As of December 31, 2022, with respect to Stage 1 and Stage 2 loans, current commercial loans represented 55.7% of our total current loan portfolio, current consumer loans represented 23.9%, and mortgages represented 20.4%. For information on the different loan stages reflected in our 2022 financial information as a result of new accounting standards we have applied beginning on January 1, 2022, see “Selected Statistical Information—Loan Portfolio—Past Due Loan Portfolio” and Note 10 to our 2022 Financial Statements included elsewhere in this Offering Memorandum.

As of December 31, 2021, we had a total current loan portfolio of Ps.1,288,845 million, compared to Ps.1,209,449 million as of December 31, 2020, an increase of 6.6%. This increase was derived from a significant recovery in economic activity that encouraged greater demand for credit. Thus, the commercial portfolio grew 5.0%, the consumer portfolio 7.6%, and the mortgage portfolio 9.7%. As of December 31, 2021, current commercial loans represented 55.3% of our total current loan portfolio, current consumer loans represented 23.5%, and mortgages represented 21.2%.

As of December 31, 2020, we had a total current loan portfolio of Ps.1,209,449 million. As of December 31, 2020, current commercial loans represented 56.1% of our total current loan portfolio, current consumer loans represented 23.3%, and current mortgage loans represented 20.6%.

Total Past Due Loans

As of December 31, 2022, we had total past due loans of Ps.23,848 million. Past due loans were mainly explained by asset quality management as well as the on-time payment behaviour of our customers' payments.

As of December 31, 2021, we had total past due loans of Ps.22,699 million, compared to Ps.37,484 million as of December 31, 2020, a decrease of Ps.14,785 million, or 39.4%. This decrease was mainly explained by our asset quality management as well as the on-time payment behavior of our customers and the application of write-offs in the portfolio in the amount of Ps.37,687 million, mainly in retail segments (Ps.30,435 million). As of December 31, 2021, the past due consumer loan portfolio represented 0.6% of our loan portfolio, the past due mortgage loan portfolio represented 0.6%, and the past due commercial loan portfolio represented 0.6%.

As of December 31, 2020, we had total past due loans of Ps.37,484 million.

Liabilities

As of December 31, 2022, we had total liabilities of Ps.2,453,568 million. This level of liabilities was mainly explained by higher demand deposits.

As of December 31, 2021, we had total liabilities of Ps.2,170,797 million compared to Ps.2,200,636 million as of December 31, 2020, a decrease of Ps.29,839 million, or 1.4%. This decrease was mainly explained by the reduction in the derivatives position.

As of December 31, 2020, we had total liabilities of Ps.2,200,636 million.

Deposits Funding

As of December 31, 2022, we had total deposits of Ps.1,710,211 million. This level was mainly as a result of more demand and time deposits.

As of December 31, 2021, we had total deposits of Ps.1,560,791 million, compared to Ps.1,417,071 million as of December 31, 2020, an increase of Ps.143,720 million, or 10.1%. This increase was mainly the result of an increase in demand deposits of Ps.158,072 million, or 14.6%, and a decrease in time deposits of Ps.18,731 million, or 7.7%.

As of December 31, 2020, we had total deposits of Ps.1,417,071 million.

Bank and Other Borrowings

As of December 31, 2022, we had bank and other borrowings for Ps.39,162 million. This level of bank and other borrowings is the result of our access to *Banco de México's* facility 8, with the objective of channelling these resources to making loans to the SME segment.

As of December 31, 2021, we had bank and other borrowings for Ps.39,433 million, compared to Ps.17,861 million as of December 31, 2020, an increase of 120.8%, or Ps.21,572 million. This increase is the result of our access to *Banco de México's* facility 8, with the objective of channelling these resources to making loans to the SME segment.

As of December 31, 2020, we had bank and other borrowings for Ps.17,861 million.

Subordinated Bonds Issued

As of December 31, 2022, we had Ps.38,623 million of subordinated bonds issued, which represented 1.6% of our total liabilities, as described above.

On September 13, 2019, we issued U.S.\$750 million Subordinated Preferred Notes Tier 2 due 2034 in the international capital markets, which initially bore interest at a rate of 5.875%.

On January 18, 2018, we issued U.S.\$1,000 million Subordinated Preferred Notes Tier 2 due 2033 in the international capital markets, which initially bore interest at a rate of 5.125%.

On November 12, 2014, we issued U.S.\$200 million Subordinated Preferred Notes Tier 2 due 2029 in the international capital markets, which initially bore interest at a rate of 5.35%.

Stockholders' Equity

As of December 31, 2022, our stockholders' equity was Ps.300,033 million. This level of stockholders' equity was mainly due to a higher level of net income.

As of December 31, 2021, our stockholders' equity was Ps.282,668 million, compared to Ps.242,234 million as of December 31, 2020, which represents an increase of Ps.40,434 million, or 16.7%. This increase was mainly due to a 21.0% increase in the net result of earned capital.

As of December 31, 2020, our stockholders' equity was Ps.242,234 million.

Liquidity and Funding

The purpose of liquidity management is to ensure that we have funds available to meet our present and future financial obligations and to respond to business opportunities as they arise. Liquidity needs arise from withdrawals of deposits, repayments of borrowed funds at maturity, extensions of loans or other forms of credit and working capital needs.

We have several funding sources including (i) customer deposits, which are in the form of either checking accounts, both interest-bearing and non-interest-bearing, *pagarés bancarios*, which are short-term promissory notes and certificate of deposits; (ii) repurchase agreements; (iii) structured notes in the local markets; and (iv) senior and subordinated notes issuances in the local and international markets. Our policy is to price our assets based upon our highest cost source of funds both to ensure that loan pricing reflects our current liquidity conditions and to maximize net interest income.

Customer deposits, which totaled Ps.1,710,211 million as of December 31, 2022, and Ps.1,560,791 million as of December 31, 2021, are our most important and also our least costly funding source. Our funding strategy focuses on increasing low-cost funding sources through marketing campaigns and improved customer service to increase the volume of deposits from our existing customers and expand our customer base. Bank notes and certificates of deposit can be issued in the domestic capital markets to manage our short-term funding structure.

We have an active asset and liability management strategy that allows us to manage our various funding sources in order to obtain a sound and balanced structure and minimize our costs. Deposits with no maturity, which come from our large base of clients, are highly stable and strengthen our low cost and core deposits.

In order to carry out our asset and liability management strategy, we have established a transfer pricing process for our funding sources, which incorporates the liquidity and risk associated with the funding source into its price. This strategy enables us to accurately measure the prices of loans and deposits, and provides us the flexibility to respond to any climate, while also preserving margin.

Within our financing alternatives, we complement financing in the wholesale market through two recurring issuer programs. The first, for the local market, which was listed in April 2016 on the Mexican Stock Exchange and was registered with the CNBV as a program of Stock Certificates (*Certificados Bursátiles*), Bank Stock Certificates (*Certificados Bursátiles Bancarios*), Term Bank Deposit Certificates, and Promissory Notes (*pagarés*) with yield for an authorized amount up to Ps.60,000 million or the equivalent in U.S. dollars, Euros or Investment Units (UDIs), on a revolving basis. The second is this Program which was first listed on Euronext Dublin in August 2019 with an authorized amount of up to U.S.\$10 billion.

As of December 31, 2022, we had a total balance of Ps.127,442 million of outstanding indebtedness, of which Ps.88,819 million, or 70%, related to debt securities issued and Ps.38,623 million, or 30%, related to subordinated bonds issued. Our debt securities issued are denominated in U.S. dollars, pesos and UDIs, while our outstanding subordinated bonds issued are denominated entirely in U.S. dollars.

To optimize our financing structure, we have liquid assets that can be used in the short term to cover liquidity risk. As reported to the CNBV, the Liquidity Coverage Ratio for the year ended December 31, 2022 was 197.68%. In addition, we have a Financing Plan for Contingencies and a Recovery Plan if we experience a stress scenario.

Foreign Currency Position

Our foreign-currency denominated assets, substantially all of which are dollar denominated, are funded from a number of sources. These sources include deposits of the same currency obtained from various sources, primarily through deposits of private banking customers, medium and large Mexican companies, primarily in the export sector, the placement of certificates of deposit in the Eurodollar market, interbank deposits, fixed-rate notes and subordinated

debentures and asset securitizations. In the case of foreign trade transactions, we use trade financing facilities from Mexican development banks and foreign export-import banks. Foreign currency funding rates are generally based on LIBOR.

For the years ended December 31, 2022, 2021 and 2020, we were in compliance with all regulatory requirements relating to the ratio of U.S. dollar-denominated liabilities to total liabilities.

Banco de México's regulations require that a bank maintain open positions in foreign currencies no higher than a specified level with respect to its total Tier 1 Capital. As of December 31, 2022, our foreign currency-denominated assets, including derivative transactions, totaled U.S.\$17.4 billion (Ps.339,964 million), representing 12.3% of our total assets. At that date, our foreign currency-denominated liabilities, including derivative transactions, totaled to U.S.\$16.6 billion (Ps.322,907 million), representing 11.7% of our total liabilities and stockholders' equity. As part of our asset liability management strategy, we closely monitor our exposure to foreign currencies to minimize the effect of exchange rate movements on our income.

Capital Expenditures

Capital expenditures have primarily consisted of expenditures for technology and systems. The purpose of our capital expenditures plan is to increase the development of new strategies and programs, enhance long-term productivity, significantly change our processes and develop new business models.

During the year ended December 31, 2022, we made investments in capital expenditures in an aggregate amount of Ps.6,874 million, which primarily consisted of technology and banking infrastructure. These expenditures were funded with cash generated from our operations and other sources of liquidity.

Risk-Based Capital

Pursuant to the Mexican Capitalization Requirements, we are required to maintain specified levels of net capital on an unconsolidated basis as a percentage of risk-weighted assets and credit risk. The Rules for Capitalization and the Mexican Capitalization Requirements set forth the methodology for determining the net capital required relative to market risk, credit risk and operational risk. See "Supervision and Regulation—Capitalization." These regulations provide that (1) our investment in subsidiaries that are related to us in accordance with Article 73 of the Mexican Banking Law, (2) our investment in subsidiaries that do not operate in the financial sector and (3) revaluation surpluses related to the investments referred to in (1) and (2) above must be subtracted from the calculation of Tier 1 Capital. Article 122 of the Mexican Banking Law provides that if a bank does not comply with the minimum Capital Ratios required pursuant to the Mexican Capitalization Requirements, which are (i) 10.5% in the case of the Total Net Capital (*capital neto*), which includes the Capital Conservation Buffer, (ii) 8.5% in the case of Tier 1 Capital (*capital básico*), which includes the Capital Conservation Buffer, and (iii) 7% in the case of Fundamental Capital (*capital básico fundamental*), which includes the Capital Conservation Buffer, *plus*, in each case, any other applicable Capital Supplement applicable to the bank, the bank must implement the corrective measures ordered by the CNBV. As of December 31, 2022, our Capitalization Ratios were (i) 19.19% in the case of Net Capital, (ii) 16.83% in the case of Fundamental Basic Capital, and (iii) 16.83% in the case of Basic Capital.

The following table presents our risk-weighted assets and Capital Ratios as of December 31, 2022, 2021 and 2020, determined, as required by regulations, on an unconsolidated basis.

	As of December 31,		
	2022	2021	2020
	(millions of Ps., except for percentages)		
Tier 1	283,355	271,234	235,404
Tier 2	39,825	40,608	50,930
Total Capital	323,180	311,842	286,333
Risk-weighted assets:			
Credit risk	1,129,471	1,032,394	1,085,281
Market risk	399,428	456,936	433,449
Operational risk	154,975	138,055	116,131
Total risk-weighted assets	1,683,874	1,627,385	1,634,861
Capital ratios (credit, market and operational risk):			
Tier 1 Capital to risk-weighted assets	16.8%	16.7%	14.4%
Tier 2 Capital to risk-weighted assets	2.4%	2.5%	3.1%
Total Capital to risk-weighted assets	19.2%	19.2%	17.5%

Source: Banco de México

Off-Balance Sheet Arrangements

In the normal course of business, we are a party to a number of off-balance sheet activities that contain credit, market and operational risk that are not reflected in our Audited Financial Statements. These activities include commitments to extend credit not otherwise accounted for as contingent loans, such as overdrafts and credit card lines of credit, and long-term contractual obligations under operating leases or service contracts. We record our off-balance sheet arrangements as memorandum accounts, which are described more fully in Note 3(aa) to our Audited Financial Statements included elsewhere in this Offering Memorandum.

We provide customers with off-balance sheet credit support through loan commitments. Such commitments are agreements to lend to a customer at a future date, subject to compliance with the contractual terms. Since substantial portions of these commitments are expected to expire without our having to make any loans, total commitment amounts do not necessarily represent our actual future cash requirements. These loan commitments totaled Ps.792,231 million as of December 31, 2022.

The credit risk of both on- and off-balance sheet financial instruments varies based on many factors, including the value of collateral held and other security arrangements. To mitigate credit risk, we generally determine the need for specific covenant, guaranty and collateral requirements on a case-by-case basis, depending on the nature of the financial instrument and the customer's creditworthiness. We may also require comfort letters and oral assurances. The amount and type of collateral held to reduce credit risk varies, but may include real estate, machinery, equipment, inventory and accounts receivable, as well as cash on deposit, stocks, bonds and other marketable securities that are generally held in our possession or at another appropriate custodian or depository. This collateral is valued and inspected on a regular basis to ensure both its existence and adequacy. Additional collateral is required when we deem it necessary.

SELECTED STATISTICAL INFORMATION

The following information should be read in conjunction with “Presentation of Certain Financial and Other Information,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our Audited Financial Statements, together with the notes thereto, included elsewhere in this Offering Memorandum.

Unless otherwise specified, in accordance with Mexican Banking GAAP, our Audited Financial Statements and the other financial information with respect to us contained in this Offering Memorandum are presented in consolidated form. We consolidate entities (including special-purpose entities, such as securitized transaction trusts) over which we exercise control. Our investments in affiliates are accounted for under the equity method. See Notes 3 and 18 to our Audited Financial Statements included elsewhere in this Offering Memorandum.

Assets and liabilities have been classified by currency of denomination (pesos or foreign currencies), rather than by domicile of customer or other criteria, because substantially all of our transactions are effected in Mexico or on behalf of Mexican residents in pesos or foreign currencies. The U.S. dollar is the principal foreign currency used in our transactions. However, Japanese yen, Swiss francs and euros are also used. For purposes of this section, all foreign currency assets and liabilities have been converted into U.S. dollars and then expressed in pesos.

Unless otherwise indicated, annual financial information for 2022, 2021 and 2020 is presented in nominal pesos.

Because Mexican tax law does not currently provide income tax exemptions for any investment securities, we do not hold any income tax-exempt investment securities and no tax-equivalence adjustments are considered necessary.

The loan portfolio information provided in this “Selected Statistical Information” was determined in accordance with the manner in which we have presented the components of our loan portfolio elsewhere in this Offering Memorandum, except that the loan portfolio data presented in this “Selected Statistical Information” section does not include amounts attributable to accrued interest, which as of December 31, 2022 represented 0.77% of our total loan portfolio. Presentation of the financial and statistical information included in this “Selected Statistical Information” may differ from the manner of presentation required by Mexican Banking GAAP standards for the presentation of our financial statements.

Pursuant to publications in the Federal Official Gazette dated December 4, 2020 and December 30, 2021, the CNBV announced the obligation, effective January 1, 2022, for Mexican banks and other financial institutions in Mexico to adopt new accounting standards. In addition, pursuant to the transitory articles of the General Rules Applicable to Mexican Banks, and as a practical solution, Mexican banks may recognize as of the date of initial application, which is January 1, 2022, the cumulative effect of the accounting changes and shall not present retrospectively the effects of such accounting changes in financial statements for prior periods. See Notes 2(a), 3 and 3(d) to our 2022 Financial Statements included elsewhere in this Offering Memorandum for additional details about the new accounting criteria that we use in the classification and measurement of financial assets and liabilities pursuant to the new accounting standards. As a result, financial information as of December 31, 2022 and for the year then ended presented in this Offering Memorandum is not comparable with financial information as of December 31, 2021 or 2020 or for the years then ended or for any prior historical financial period. See “Risk Factors—Risks Relating to Our Business—As a result of the implementation of new accounting criteria for credit institutions in Mexico established by the CNBV, financial information as of and for the year ended December 31, 2022 is not comparable with financial information for prior years.”

Average Balance Sheet and Interest Rate Data

Peso-Denominated Average Balances and Interest Income

Average balances for our peso-denominated assets and liabilities have been calculated in the following manner. For each month, an average of the daily peso balances was determined. The average balance for each year presented below is the average of the 12 monthly balances so determined. Interest income (expense) for each year is the total of the income (expense) for the 12 months.

For our consolidated subsidiaries, average balances have been calculated on the basis of the average of month-end balances.

Foreign Currency-Denominated and UDI-Denominated Average Balances and Interest Income

Average balances and interest income (expense) for our foreign currency-denominated and UDI-denominated assets and liabilities have been translated into pesos and calculated in the following manner. For each month, an average of the daily foreign currency or UDI balances and of the interest income (expense) was determined. Such daily average balances and interest income (expense) are converted into pesos using the closing exchange rate for the applicable month as published by *Banco de México* in the Federal Official Gazette. The average balance for each year presented below is the average of the 12 monthly balances so determined. Interest income (expense) for each year is the total of the income (expense) for the 12 months so determined.

For our consolidated subsidiaries, average balances have been calculated on the basis of the average of month-end balances.

Average Interest Rates

The average annual rates earned on interest-earning assets and the average annual rate paid on interest-bearing liabilities are nominal rates.

Average Assets and Interest Rates

The tables below present the average balance of assets, interest income and average annual interest rate for the periods specified.

	For the Year Ended December 31,								
	2022			2021			2020		
	Average Balance	Interest Income	Average Interest Rate (%)	Average Balance	Interest Income	Average Interest Rate (%)	Average Balance	Interest Income	Average Interest Rate (%)
	(millions of Ps., except percentages)								
Deposits in banks:									
Pesos.....	60,248	4,749	7.88	51,930	2,370	4.56	49,244	2,793	5.67
UDIs.....	—	—	—	—	—	—	—	—	—
Foreign currency.....	172,787	5,567	3.22	154,960	452	0.29	82,453	479	0.58
Subtotal	233,035	10,316	4.43	206,890	2,822	1.36	131,697	3,272	2.48
Government securities:									
Pesos.....	451,868	31,817	7.04	475,758	24,923	5.24	396,257	24,328	6.14
UDIs.....	18,786	926	1.93	12,852	186	1.45	21,495	411	1.91
Foreign currency.....	29,644	2,023	6.82	34,354	1,244	3.62	37,436	2,677	7.15
Subtotal	500,298	34,766	6.95	522,964	26,353	5.04	455,188	27,416	6.02
Investment in other fixed income securities:									
Pesos.....	9,896	1,063	10.74	9,992	954	9.55	10,572	739	6.99
UDIs.....	56	—	—	172	—	—	503	5	0.99
Foreign currency.....	3,214	106	3.30	3,203	91	2.84	3,535	116	3.28
Subtotal	13,166	1,169	8.88	13,367	1,045	7.82	14,610	860	5.89
Loans:⁽¹⁾									
Pesos.....	1,212,949	169,080	13.94	1,094,216	135,524	12.39	1,081,165	133,945	12.39
UDIs.....	2,875	186	6.47	3,325	233	7.01	3,838	284	7.40
Foreign currency.....	189,333	8,686	4.59	31,392	3,723	11.86	95,002	8,650	9.11
Subtotal	1,405,157	177,952	16.66	1,128,933	139,480	12.36	1,180,005	142,879	12.11
Creditors from repurchase agreements:									
Pesos.....	50,778	4,073	8.02	46,523	1,993	4.28	50,018	3,341	6.68
UDIs.....	—	—	—	—	—	—	—	—	—
Foreign currency.....	—	—	—	—	—	—	—	—	—
Subtotal	50,778	4,073	8.02	46,523	1,993	4.28	50,018	3,341	6.68
Other interest-earning assets:									
Pesos.....	11,633	720	6.19	15,259	1,017	6.66	14,725	924	6.28
UDIs.....	—	—	—	—	—	—	—	—	—
Foreign currency.....	(17)	—	—	—	—	—	—	—	—
Subtotal	11,616	720	6.20	15,259	1,017	6.66	14,725	924	6.28
Total interest-earning assets:									
Pesos.....	1,797,372	211,502	11.77	1,693,678	166,781	9.85	1,601,981	166,070	10.37
UDIs.....	21,717	1,113	5.12	16,349	419	2.56	25,836	700	2.71
Foreign currency.....	394,961	16,382	4.15	223,909	5,510	2.46	218,426	11,922	5.46
Subtotal	2,214,050	228,997	10.34	1,933,936	172,710	8.93	1,846,243	178,692	9.68

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- (1) Interest income includes fees on loans of pesos, origination fees and credit card annual fees. Under Mexican Banking GAAP, such fees are recorded as income at the time of incurrence and are not amortized over the life of the related loan, as would be required under U.S. GAAP and IFRS.

	For the Year Ended December 31,								
	2022			2021			2020		
	Average Balance	Interest Income	Average Interest Rate (%)	Average Balance	Interest Income	Average Interest Rate (%)	Average Balance	Interest Income	Average Interest Rate (%)
	(millions of Ps., except percentages)								
Equity investment:									
Pesos.....	4,469			4,656			5,267		
Foreign currency.....	68			103			2,094		
Subtotal.....	4,537			4,759			7,361		
Cash due from banks:									
Pesos.....	52,139			54,634			47,058		
Foreign currency.....	15,611			18,873			17,224		
Subtotal.....	67,750			73,507			64,282		
Allowance for loan losses:									
Pesos (includes UDIs).....	(43,479)			(40,204)			(40,022)		
UDIs.....	(88)			(150)			(141)		
Foreign currency.....	(1,908)			(1,887)			(844)		
Subtotal.....	(45,475)			(42,241)			(41,007)		
Premises and equipment:									
Pesos.....	39,706			35,474			37,144		
Foreign currency.....	21			5			8		
Subtotal.....	39,727			35,479			37,152		
Other non-interest-earning assets:									
Pesos.....	54,220			8,422			41,640		
UDIs.....	(1,044)			10,939			2,215		
Foreign currency.....	43,165			6,607			(35,886)		
Subtotal.....	96,341			25,968			7,969		
Total assets:									
Pesos.....	1,904,427	211,502	11.11	1,756,660	166,781	9.49	1,693,068	166,070	9.81
UDIs.....	20,585	1,113	5.40	27,138	419	1.54	27,910	700	2.51
Foreign currency.....	451,918	16,382	3.62	247,610	5,510	2.23	201,022	11,922	5.93
Subtotal.....	2,376,930	228,997	9.63	2,031,408	172,710	8.50	1,922,000	178,692	9.30

Average Liabilities, Stockholders' Equity and Interest Rates

The table below presents the average balance of liabilities and stockholders' equity, interest expense and average annual interest rate for the periods specified.

	For the Year Ended December 31,								
	2022			2021			2020		
	Average Balance	Interest Expense	Average Interest Rate (%)	Average Balance	Interest Expense	Average Interest Rate (%)	Average Balance	Interest Expense	Average Interest Rate (%)
	(millions of Ps., except percentages)								
Demand deposits									
(checking accounts):									
Pesos.....	454,980	11,557	2.54	398,244	5,835	1.47	398,788	8,960	2.25
UDIs.....	—	—	—	—	—	—	—	—	—
Foreign currency.....	155,214	1,505	0.97	147,114	45	0.03	128,658	196	0.15
Subtotal	610,194	13,062	2.14	545,358	5,880	1.08	527,446	9,156	1.74
Saving deposits:									
Pesos.....	436,739	461	0.11	385,281	1,653	0.43	313,262	1,633	0.52
UDIs.....	—	—	—	—	—	—	—	—	—
Foreign currency.....	2,106	—	—	2,094	—	—	2,190	—	—
Subtotal	438,845	461	0.11	387,375	1,653	0.43	315,452	1,633	0.52
Time deposits:									
Pesos.....	281,783	19,150	6.80	273,459	11,213	4.10	320,458	17,110	5.34
UDIs.....	16,571	1,202	7.25	15,372	1,130	7.35	19,125	731	3.82
Foreign currency.....	9,021	32	0.35	9,350	540	5.78	9,971	1,116	11.19
Subtotal	307,375	20,384	6.63	298,181	12,883	4.32	349,554	18,957	5.42
Short-term borrowings:									
Pesos.....	22,897	1,890	8.25	12,506	605	4.84	4,260	283	6.64
UDIs.....	—	—	—	—	—	—	—	—	—
Foreign currency.....	1,606	32	1.99	1,843	12	0.65	8,415	27	0.32
Subtotal	24,503	1,922	7.84	14,349	617	4.30	12,675	310	2.45
Long-term debt:									
Pesos.....	12,389	1,082	8.73	13,587	808	5.95	13,946	1,018	7.30
UDIs.....	—	—	—	—	—	—	—	—	—
Foreign currency.....	1,840	—	—	1,743	—	—	2,248	—	—
Subtotal	14,229	1,082	7.60	15,330	808	5.27	16,194	1,018	6.29
Subordinated Notes:									
Pesos.....	—	—	—	—	—	—	—	—	—
UDIs.....	—	—	—	—	—	—	—	—	—
Foreign currency.....	86,765	5,435	6.26	98,732	1,788	1.81	114,684	5,253	4.58
Subtotal	86,765	5,435	6.26	98,732	1,788	1.81	114,684	5,253	4.58
Debtors from repurchase agreements:									
Pesos.....	243,984	18,912	7.75	322,172	13,896	4.31	283,613	15,987	5.64
UDIs.....	8,269	—	—	9,527	—	—	7,634	2	0.03
Foreign currency.....	—	—	—	—	—	—	3,528	—	—
Subtotal	252,253	18,912	7.50	331,699	13,896	4.19	294,775	15,989	5.42
Total interest-bearing liabilities:									
Pesos.....	1,452,772	53,052	3.65	1,405,249	34,010	2.42	1,334,327	44,991	3.37
UDIs.....	24,840	1,202	4.84	24,899	1,130	4.54	26,759	733	2.74
Foreign currency.....	256,551	7,004	2.73	260,876	2,385	0.91	269,694	6,592	2.44
Subtotal	1,734,163	61,258	3.53	1,691,024	37,525	2.22	1,630,780	52,316	3.21
Non-interest-bearing liabilities:									
Pesos.....	154,902	—	—	90,823	—	—	131,148	—	—
UDIs.....	(4,255)	—	—	2,238	—	—	1,151	—	—
Foreign currency.....	195,366	—	—	(13,266)	—	—	(68,675)	—	—
Subtotal	346,013	—	—	79,795	—	—	63,624	—	—
Stockholders' equity:									
Pesos.....	296,754	—	—	260,589	—	—	227,593	—	—
UDIs.....	—	—	—	—	—	—	—	—	—
Foreign currency.....	(1)	—	—	—	—	—	3	—	—
Subtotal	296,753	—	—	260,589	—	—	227,596	—	—

	For the Year Ended December 31,								
	2022			2021			2020		
	Average Balance	Interest Expense	Average Interest Rate (%)	Average Balance	Interest Expense	Average Interest Rate (%)	Average Balance	Interest Expense	Average Interest Rate (%)
	(millions of Ps., except percentages)								
Total liabilities and stockholders' equity									
Pesos.....	1,904,428	53,052	2.79	1,756,661	34,010	1.94	1,693,068	44,991	2.66
UDIs.....	20,585	1,202	5.84	27,137	1,130	4.16	27,910	733	2.63
Foreign currency.....	451,917	7,004	1.55	247,610	2,385	0.96	201,022	6,592	3.28
Total.....	<u>2,376,930</u>	<u>61,258</u>	2.58	<u>2,031,408</u>	<u>37,525</u>	1.85	<u>1,922,000</u>	<u>52,316</u>	2.72

Changes in Net Interest Income and Expense

The following tables allocate, by currency of denomination, changes in our net interest income between changes in volume and changes in rates for the year ended December 31, 2022, compared to the year ended December 31, 2021; and the year ended December 31, 2021 compared to the year ended December 31, 2020. Volume and rate variances have been calculated based on movements in average balances over the period and changes in interest rates on average balances of interest-earning assets and average balances of interest-bearing liabilities. Using averages allows us to obtain comparable figures across different years. The variances caused by changes in both volume and rate have been allocated to volume.

Interest-Earning Assets

	2022/2021			2021/2020		
	Increase (decrease) due to changes in:			Increase (decrease) due to changes in:		
	Volume	Interest Rate	Net Change	Volume	Interest Rate	Net Change
	(millions of Ps.)					
Deposits in banks:						
Pesos	656	1,723	2,379	123	(546)	(423)
UDIs	—	—	—	—	—	—
Foreign currency	574	4,541	5,115	211	(238)	(27)
Subtotal	1,230	6,264	7,494	334	(784)	(450)
Government securities:						
Pesos	(1,682)	8,576	6,894	4,165	(3,570)	595
UDIs	292	448	740	(125)	(100)	(225)
Foreign currency	(321)	1,100	779	(112)	(1,321)	(1,433)
Subtotal	(1,711)	10,124	8,413	3,928	(4,991)	(1,063)
Fixed income securities:						
Pesos	(10)	119	109	(55)	270	215
UDIs	—	—	—	—	(5)	(5)
Foreign currency	—	15	15	(9)	(16)	(25)
Subtotal	(10)	134	124	(64)	249	185
Loans:⁽¹⁾						
Pesos	16,551	17,005	33,556	1,616	(37)	1,579
UDIs	(29)	(18)	(47)	(36)	(15)	(51)
Foreign currency	7,246	(2,283)	4,963	(7,544)	2,617	(4,927)
Subtotal	23,768	14,704	38,472	(5,964)	2,565	(3,399)
Creditors from repurchase agreements:						
Pesos	341	1,739	2,080	(150)	(1,198)	(1,348)
UDIs	—	—	—	—	—	—
Foreign currency	—	—	—	—	—	—
Subtotal	341	1,739	2,080	(150)	(1,198)	(1,348)
Other interest-earning assets:						
Pesos	(224)	(73)	(297)	36	57	93
UDIs	—	—	—	—	—	—
Foreign currency	—	—	—	—	—	—
Subtotal	(224)	(73)	(297)	36	57	93
Total interest-earning assets:						
Pesos	15,632	29,089	44,721	5,735	(5,024)	711
UDIs	263	430	693	(161)	(120)	(281)
Foreign currency	7,499	3,373	10,872	(7,454)	1,042	(6,412)
Subtotal	23,394	32,892	56,286	(1,880)	(4,102)	(5,982)

(1) Interest income includes fees on loans of Ps.1,983 million for the year ended December 31, 2022, Ps.1,831 million for the year ended December 31, 2021 and Ps.1,958 million for the year ended December 31, 2020, which have been included in interest income on a current basis and are not deferred and subsequently amortized. Fees on loans include origination fees and credit card annual fees.

Interest-Bearing Liabilities

	2022/2021			2021/2020		
	Increase (decrease) due to changes in:			Increase (decrease) due to changes in:		
	Volume	Interest Rate	Net Change	Volume	Interest Rate	Net Change
	(millions of Ps.)					
Demand deposits (checking accounts):						
Pesos	1,441	4,281	5,722	(8)	(3,117)	(3,125)
UDIs	—	—	—	—	—	—
Foreign currency	79	1,381	1,460	6	(157)	(151)
Subtotal	1,520	5,662	7,182	(2)	(3,274)	(3,276)
Saving deposits:						
Pesos	54	(1,246)	(1,192)	309	(289)	20
UDIs	—	—	—	—	—	—
Foreign currency	—	—	—	—	—	—
Subtotal	54	(1,246)	(1,192)	309	(289)	20
Time deposits:						
Pesos	566	7,371	7,937	(1,927)	(3,970)	(5,897)
UDIs	87	(15)	72	(276)	675	399
Foreign currency	(1)	(507)	(508)	(36)	(540)	(576)
Subtotal	652	6,849	7,501	(2,239)	(3,835)	(6,074)
Short-term borrowings:						
Pesos	858	427	1,285	399	(77)	322
UDIs	—	—	—	—	—	—
Foreign currency	(5)	25	20	(43)	28	(15)
Subtotal	853	452	1,305	356	(49)	307
Long-term debt:						
Pesos	(105)	379	274	(21)	(189)	(210)
UDIs	—	—	—	—	—	—
Foreign currency	—	—	—	—	—	—
Subtotal	(105)	379	274	(21)	(189)	(210)
Subordinated Notes:						
Pesos	—	—	—	—	—	—
UDIs	—	—	—	—	—	—
Foreign currency	(750)	4,397	3,647	(289)	(3,176)	(3,465)
Subtotal	(750)	4,397	3,647	(289)	(3,176)	(3,465)
Debtors from repurchase agreements:						
Pesos	(6,061)	11,077	5,016	1,663	(3,754)	(2,091)
UDIs	—	—	—	—	(2)	(2)
Foreign currency	—	—	—	—	—	—
Subtotal	(6,061)	11,077	5,016	1,663	(3,756)	(2,093)
Total interest-bearing liabilities:						
Pesos	1,735	17,307	19,042	1,716	(12,697)	(10,981)
UDIs	(3)	75	72	(84)	481	397
Foreign currency	(118)	4,737	4,619	(81)	(4,126)	(4,207)
Total	1,614	22,119	23,733	1,551	(16,342)	(14,791)
Total net change:						
Pesos	13,897	11,782	25,679	4,019	7,673	11,692
UDIs	266	355	621	(77)	(601)	(678)
Foreign currency	7,617	(1,364)	6,253	(7,373)	5,168	(2,205)
Total	21,780	10,773	32,553	(3,431)	12,240	8,809

Interest-Earning Assets—Yield and Yield Spread

The following table sets forth, by currency of denomination, the levels of our average interest-earning assets and net interest income, and gross and net yield and yield spread obtained, for each of the periods indicated. In addition, because loan fees are a component of pricing, a table including loan fees (which include loan origination fees and credit card fees) in net interest income has been included. For purposes of this presentation, as required under Mexican Banking GAAP, loan origination fees are recognized in a deferred liability, which is amortized in net income as part of interest income, over the life of the loan.

	For the Year Ended December 31,		
	2022	2021	2020
	(millions of Ps., except percentages)		
Total average earning assets:			
Pesos	1,797,372	1,693,678	1,601,981
UDIs.....	21,717	16,349	25,836
Foreign currency	394,961	223,909	218,426
Total	2,214,050	1,933,936	1,846,243
Historical not including loan fees:			
Net interest income:			
Pesos	156,499	130,984	119,175
UDIs.....	(90)	(711)	(33)
Foreign currency	9,371	3,125	5,276
Total	165,780	133,398	124,418
Gross yield: ⁽¹⁾			
Pesos	11.66%	9.74%	10.25%
UDIs.....	5.12%	2.56%	2.71%
Foreign currency	4.15%	2.46%	5.43%
Weighted-average rate.....	10.34%	8.93%	9.68%
Net yield: ⁽²⁾			
Pesos	8.71%	7.73%	7.44%
UDIs.....	(0.41)%	(4.35)%	(0.13)%
Foreign currency	2.37%	1.40%	2.42%
Weighted-average rate.....	7.49%	6.90%	6.74%
Yield spread: ⁽³⁾			
Pesos	8.01%	7.32%	6.88%
UDIs.....	0.28%	(1.98)%	(0.03)%
Foreign currency	1.42%	1.55%	2.99%
Weighted-average rate.....	6.81%	6.71%	6.47%
Historical including loan fees:			
Net interest income:			
Pesos	158,450	132,771	121,079
UDIs.....	(90)	(711)	(33)
Foreign currency	9,378	3,125	5,330
Total	167,738	135,185	126,376
Gross yield: ⁽¹⁾			
Pesos	11.77%	9.85%	10.37%
UDIs.....	5.12%	2.56%	2.71%
Foreign currency	4.15%	2.46%	5.46%
Weighted-average rate.....	10.34%	8.93%	9.68%
Net yield: ⁽²⁾			
Pesos	8.82%	7.84%	7.56%
UDIs.....	(0.41)%	(4.35)%	(0.13)%
Foreign currency	2.37%	1.40%	2.44%
Weighted-average rate.....	7.58%	6.99%	6.85%
Yield spread: ⁽³⁾			
Pesos	8.12%	7.43%	6.99%
UDIs.....	0.28%	(1.98)%	(0.03)%
Foreign currency	1.42%	1.55%	3.01%
Weighted-average rate.....	6.81%	6.71%	6.47%

(1) Gross yield represents interest income divided by average earning assets.

- (2) Net yield represents the total of net interest income divided by average earning assets.
(3) Yield spread represents the difference between gross yield on average interest-earning assets and average cost of interest-bearing liabilities.

Return on Average Assets and Average Equity

The following table presents certain selected financial data and ratios for the periods indicated.

	For the Year Ended December 31,		
	2022	2021	2020
	(millions of Ps., except percentages)		
Net income	76,530	60,260	36,167
Average assets	2,376,930	2,031,408	1,922,000
Average equity	296,753	260,589	227,596
Return on average assets ⁽¹⁾	3.22%	2.97%	1.58%
Return on average equity ⁽²⁾	25.79%	23.12%	15.82%
Average equity as a percentage of average assets	12.48%	12.83%	11.84%

- (1) “Return on average assets” is equal to net income for the year divided by average assets for the year. Average assets in this section are calculated according to the guidelines applicable to the “Selected Statistical Information” section of this Offering Memorandum.
(2) “Return on average equity” is equal to net income for the year divided by average equity for the year. Average equity in this section is calculated according to the guidelines applicable to the “Selected Statistical Information” section of this Offering Memorandum.

Interest Rate Sensitivity of Assets and Liabilities

Interest Rates

Banco de México’s regulations mandate that Mexican banks base their interest rates on loans with an amount of 5 million UDI or less on a fixed rate or a single reference rate published regularly by official sources and that the agreements for such loans specify the factor used to determine the interest rate and, if applicable, the minimum and maximum spread over the reference rate. Currently, we base the interest rates on most of our peso-denominated loans on the TIIE calculated by *Banco de México*.

In accordance with *Banco de México*’s regulations, our policy with respect to foreign currency-denominated loans, which are principally in U.S. dollars, is generally to price such loans on the basis of LIBOR with repricing intervals of one, three or six months. Spreads over LIBOR are determined in accordance with our marginal cost of funding in currencies other than pesos. Interest on loans to Mexican borrowers paid to our Houston branch is subject to the withholding tax. The established rate is 4.9% for the year ended December 31, 2022. The cost of this withholding tax is reflected in the determination of the overall cost of the loan to the customer. Under *Banco de México*’s regulations, an amount equivalent to a portion of our foreign currency-liabilities must be invested in low-risk, highly liquid instruments and deposits. See “Supervision and Regulation—Liquidity Requirements for Foreign Currency-Denominated Liabilities.” The cost associated with funding this reserve is also included in determining the cost to customers of foreign currency-denominated loans.

Interest Rate Sensitivity

A key component of our asset and liability policy is the management of interest rate sensitivity. Interest rate sensitivity is the relationship between market interest rates and net interest income due to the repricing characteristics of assets and liabilities. For any given period, the pricing structure is matched when an equal amount of assets and liabilities reprice. Any excess of assets or liabilities over these matched items results in a repricing gap or net exposure. A positive repricing gap normally means that an increase in interest rates would result in an increase in net interest income, while a decrease in interest rates would result in a decrease in net interest income.

Our interest rate sensitivity strategy takes into account, among other things, the rates of return and the underlying degree of risk, liquidity requirements, including minimum regulatory cash reserves, mandatory liquidity ratios (inapplicable to peso lending), withdrawal and maturity deposits, capital cost and additional demands for funds. We monitor our rate and maturity mismatches and positions, which are managed within established limits.

The following table reflects our interest-earning assets and interest-bearing liabilities as of December 31, 2022. Fixed-rate instruments were classified in this table according to their final maturity and other instruments based on their interval of repricing.

As of December 31, 2022

	0-30 days	31-90 days	91-180 days	181-365 days	Non-rate sensitive or over one year	Total
	(millions of Ps., except percentages)					
Assets:						
Variable-rate commercial loans.....	465,707	67,379	4,227	2,518	489	540,320
Consumer loans, mortgage loans and lease receivables.....	86,479	9,732	13,085	32,799	533,425	675,520
Fixed-rate commercial loans.....	26,464	30,540	14,604	10,387	218,342	300,337
Total loans.....	578,650	107,651	31,916	45,704	752,256	1,516,177
Securities and derivatives.....	106,180	80,433	68,077	55,531	439,726	749,947
Debtors from repurchase agreements.....	—	—	—	—	—	—
Borrowed securities.....	—	—	—	—	—	—
Creditors from repurchase agreements ⁽¹⁾	(155,251)	(606)	—	(3,095)	(1,781)	(160,733)
Reverse repurchase agreements.....	—	—	—	—	—	—
Total interest-earning assets.....	529,579	187,478	99,993	98,140	1,190,201	2,105,391
Equity securities.....	—	—	—	—	1,183	1,183
Cash, property and other non-interest earning assets.....	0	—	—	—	509,558	509,558
Less: Allowance for loan losses.....	(33,419)	(661)	(281)	(896)	(14331)	(49,588)
Total assets⁽²⁾.....	496,160	186,817	99,712	97,244	1,686,611	2,566,544
Liabilities and stockholders' equity:						
Notes sold through intermediaries.....	3,475	292	59	28	255	4,110
Notes sold through branches.....	182,972	45,964	13,597	1,182	(193)	243,521
Demand deposits.....	441,782	8,775	12,457	108,482	795,549	1,367,045
Total deposits.....	628,229	55,031	26,113	109,692	795,611	1,614,676
Short-term debt.....	—	6,528	—	—	—	6,528
Long-term debt.....	44,319	1,116	1,704	767	73,547	121,453
Subordinated debt.....	—	—	—	—	38,623	38,623
Other liabilities.....	—	—	—	—	485,231	485,231
Stockholders' equity.....	—	—	—	—	300,033	300,033
Total liabilities and stockholders' equity.....	672,548	62,675	27,817	110,459	1,693,045	2,566,544
Interest rate sensitivity gap.....	(176,388)	124,142	71,895	(13,215)	(6,434)	—
Cumulative interest rate sensitivity gap.....	(176,388)	(52,246)	19,649	6,434	—	—
Cumulative gap as percentage of total interest-earning assets.....	(8.38%)	(2.48%)	0.93%	0.31%	—	—

(1) Creditors from repurchase agreements is the net amount of (i) Debtors on repurchases/resales and (ii) Creditors on repurchase/resale, as presented in our consolidated statement of financial position.

(2) The amount of assets and total liabilities and stockholders' equity is net of Creditors on repurchase/resale as described in (1).

As of December 31, 2022, interest-earning assets totaled Ps.2,105,390 million. Of these assets, 25.15% repriced every 30 days or less and were comprised of the following: 58.5% commercial loans, 12.8% consumer and mortgage loans, 14.2% investment securities and derivatives (excluding equity investments) and 0.00% credits from repurchase agreements. The interest rates for 5.5% of interest-earning assets, comprising mostly commercial loans, are reset periodically every 31 to 180 days.

Non-interest rate sensitive assets and assets that are not repriced within a period of 365 days include, among others, cash, real and personal property and equity investments. Investments in the foregoing assets amounted to Ps.1,686,611 million as of December 31, 2022, which represented 65.7% of total assets.

Of our total liabilities as of December 31, 2022, 71.2% consisted of deposits, totaling Ps.1,614,676 million, of which 38.9% reprice every 30 days or less, and 5.0% every 31 to 180 days. The remaining 28.8% of our liabilities totaled Ps.651,835 million as of December 31, 2022 and consisted of Ps 6,528 million of short-term borrowings, Ps.160,076 million of long-term debt, subordinated debt, funding from the *Fondo de Operación y Fomento Bancario de la Vivienda*, the Mexican government's fund for low-income housing assistance, and Ps.485,231 million of other liabilities. Of our total liabilities, as of December 31, 2022, 6.8% reprice every 30 days or less, 1.4% every 31 to 180 days, 0.1% every 181-365 days, and the remaining 91.6% reprice at periods exceeding a year.

Interest-Bearing Deposits with Other Banks

Banco de México's regulations require us to maintain a minimum liquidity coefficient of certain foreign currency liabilities. See "Supervision and Regulation—Liquidity Requirements for Foreign Currency-Denominated Liabilities." Accordingly, a substantial majority of our short-term deposits with international banks are denominated in U.S. dollars.

Banco de México requires that we hold open positions in foreign currency (short or long) no greater than a specified level with respect to our total Tier 1 Capital. As of December 31, 2022, the limit established for foreign

currency-denominated liabilities was U.S.\$25,686 million. On the same date, our position in foreign currency-denominated liabilities was U.S.\$10,506 million, below the limit imposed by *Banco de México*.

Additionally, *Banco de México* requires us to maintain liquid assets to cover our foreign currency-denominated liabilities. As of December 31, 2022, we were required to have liquid assets of U.S.\$7,930 million, and had U.S.\$10,941 million, which represents an excess liquidity of U.S.\$3,011 million.

Our foreign exchange risk management involves a very close monitoring of exposure to foreign currencies, to neutralize the effect of the currency exchange in our income, as well as perform daily estimates and projections for liquidity in foreign currency, to ensure regulatory compliance, and monitor the Bank's internal guidelines on liquidity.

Securities

As of December 31, 2022, we held securities in the amount of Ps.528,525 million, representing 19.19% of our total assets as of that date. The following table presents our portfolio of securities at the dates indicated, including securities under repurchase and resale agreements.

	As of December 31,		
	2022	2021	2020
	(millions of Ps.)		
Peso-denominated:			
Mexican government securities:			
Cetes (federal treasury securities)	76,843	20,118	30,898
Special Cetes (federal treasury securities).....	1,562	18,887	18,083
Bonds (federal government development bonds).....	40,683	145,330	59,264
BPAs (floating rate bonds issued by the IPAB)	95,515	86,205	102,080
<i>Bono Tasa Fija (fixed-rate bond)</i>	199,408	244,497	273,335
BREMs (monetary regulation bonds).....	—	—	—
Total Mexican government securities	414,011	515,037	483,660
Non-government securities:			
Bank bonds and certificates.....	46,355	15,458	19,271
Commercial paper	—	—	—
Other fixed-income securities	—	—	—
Total non-government securities	46,355	15,458	19,271
Equity securities:			
Listed	1,327	1,569	1,338
Unlisted	—	—	—
Investment in subsidiaries	1,521	76	65
Investment in affiliated companies.....	1,092	1,010	1,070
Constancia Bursatilizada InveX	—	—	—
Total Equity Securities	3,940	2,655	2,473
Total peso-denominated	464,306	533,150	505,404
UDI-denominated:			
Udibonos (federal government development bonds).....	15,405	1,562	4,317
Promissory notes issued for highway program.....	7,593	8,785	16,750
CBICs.....	—	—	—
Bank bonds and certificates.....	—	—	90
Total UDI-denominated	22,998	10,347	21,157
Foreign currency-denominated:			
Government securities:			
Mexican government securities issued abroad	31,002	28,451	32,247
U.S. Treasury securities	7,522	1,747	2,044
Government securities from other countries	—	—	—
Total government securities	38,524	30,198	34,291
Euronotes	4,079	6,665	8,448
Investment trusts	—	—	—
Commercial paper	—	40	80
Other fixed-income securities.....	—	—	—
Equity securities (listed):			
Listed	48	51	1,387
Unlisted	—	—	—

	As of December 31,		
	2022	2021	2020
		(millions of Ps.)	
Investment in subsidiaries	—	—	—
Investment in affiliated companies.....	(1,430)	—	—
Total foreign currency-denominated.....	41,221	36,954	44,206
Total securities	528,525	580,451	570,767

Securities – Maturities and Average Yields

The following table analyzes by currency, as of December 31, 2022, remaining maturities and weighted-average yields of securities held by us that have a specific date of maturity without the mark-to-market effect on securities.

	From 1 to 89 days		From 90 to 179 days		From 6 to 12 months		From 1 to 2 years		From 2 to 3 years		From 3 to 4 years		From 4 to 5 years		More than 5 years		Total
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	
Peso-denominated:																	
Mexican government securities:																	
Cetes (federal treasury securities)	193	0.00%	42,795	0.00%	27,107	0.00%	7,049	0.00%	—	0.00%	—	0.00%	—	0.00%	—	0.00%	77,144
Special Cetes (federal treasury securities)	—	0.00%	—	0.00%	—	0.00%	—	0.00%	—	0.00%	—	0.00%	1,562	9.40%	—	0.00%	1,562
Bondes (federal government development bonds)	615	10.46%	246	10.47%	458	10.53%	691	10.49%	14,262	10.40%	21,782	10.50%	2,677	10.53%	—	0.00%	40,731
BPA's (floating rate bonds issued by the IPAB)	19,652	9.89%	20	10.51%	13,549	9.89%	15,638	9.89%	60	9.50%	14,100	9.66%	15,225	10.06%	17,531	10.36%	95,775
Bono Tasa Fija (fixed-rate bond)	5,218	6.48%	—	0.00%	29,348	8.00%	77,322	8.99%	15,287	5.00%	32,687	5.75%	43,914	7.30%	6,974	8.04%	210,750
BREMs (monetary regulation bonds)	—	0.00%	—	0.00%	—	0.00%	—	0.00%	—	0.00%	—	0.00%	—	0.00%	—	0.00%	—
Total Mexican government securities	25,678	9.14%	43,061	0.06%	70,462	5.30%	100,700	8.51%	29,609	7.61%	68,569	8.06%	63,378	8.15%	24,505	9.70%	425,962
Non-government securities:																	
Bank bonds and certificates	1,223	7.75%	250	10.51%	617	10.92%	2,422	8.59%	36,376	10.46%	2,960	8.69%	1,862	6.09%	990	9.01%	46,700
Commercial paper	—	0.00%	—	0.00%	—	0.00%	—	0.00%	—	0.00%	—	0.00%	—	0.00%	—	0.00%	—
Other fixed-income securities	—	0.00%	—	0.00%	—	0.00%	—	0.00%	—	0.00%	—	0.00%	—	0.00%	—	0.00%	—
Total peso-denominated	26,901	9.07%	43,311	0.12%	71,079	5.35%	103,122	8.51%	65,985	9.18%	71,529	8.09%	65,240	8.09%	25,495	9.67%	472,662
UDI-denominated:																	
Udibonos (federal government development bonds)																	
Promissory Notes issued for highway program	—	0.00%	—	0.00%	15	3.50%	—	0.00%	2,017	4.50%	9,552	3.00%	—	0.00%	3,820	3.72%	15,404
CBICs	—	0.00%	—	0.00%	—	0.00%	—	0.00%	—	0.00%	17	3.94%	—	0.00%	7,635	5.52%	7,652
Banks bonds and certificates	—	0.00%	—	0.00%	—	0.00%	—	0.00%	—	0.00%	—	0.00%	—	0.00%	—	0.00%	—
Total UDI-denominated	—	0.00%	—	0.00%	15	3.50%	—	0.00%	2,017	4.50%	9,569	3.00%	—	0.00%	11,455	4.92%	23,056
Foreign currency-denominated:																	
Government securities:																	
Mexican government securities issued abroad																	
US Treasury bills	1,044	0.00%	—	0.00%	292	0.75%	1,121	6.75%	1,667	3.90%	2,954	2.33%	3,082	1.72%	22,184	2.94%	31,092
Commercial paper	—	0.00%	—	0.00%	—	0.00%	—	0.00%	—	0.00%	—	0.00%	—	0.00%	—	0.00%	—
Government securities from other countries	—	0.00%	—	0.00%	—	0.00%	—	0.00%	—	0.00%	—	0.00%	—	0.00%	—	0.00%	—
Total Government securities	1,044	0.00%	—	0.00%	376	0.58%	1,121	6.75%	5,979	4.12%	2,954	2.33%	4,978	2.30%	22,184	2.94%	38,636
Euronotes	371	5.72%	700	11.19%	—	0.00%	2,649	5.86%	1,678	4.73%	—	0.00%	—	0.00%	1,072	7.50%	6,470
Investment trusts	—	0.00%	—	0.00%	—	0.00%	—	0.00%	—	0.00%	—	0.00%	—	0.00%	—	0.00%	—
Commercial paper	—	0.00%	—	0.00%	—	0.00%	—	0.00%	—	0.00%	—	0.00%	—	0.00%	—	0.00%	—
Other fixed-income securities	—	0.00%	—	0.00%	—	0.00%	—	0.00%	—	0.00%	—	0.00%	—	0.00%	—	0.00%	—
Total foreign currency-denominated	1,415	1.50%	700	11.19%	376	0.58%	3,770	6.12%	7,657	4.25%	2,954	2.33%	4,978	2.30%	23,256	3.15%	45,106
Total securities (excluding equity securities)	28,316	8.70%	44,011	0.30%	71,470	5.33%	106,892	8.43%	75,659	8.56%	84,052	7.31%	70,218	7.68%	60,206	6.25%	540,824

Loan Portfolio

Total loan amounts set forth in this section include the total principal amount of total current and total past due loans outstanding at the date presented, which include rediscounted loans. The terms “total loans” and “total loan portfolio” include total current loans plus total past due loans. The terms “net total loans” and “net total loan portfolio” refer to net total current loans plus net past due loans.

As of December 31, 2022 the principal balance of our loan portfolio was Ps.1,504,451 million, where current commercial and corporate loans totaled Ps.816,412 million, due to increased activity in small and medium-sized companies and micro-businesses.

Loans by Type and by Borrower

The following table illustrates our loan portfolio by loan type. Total loans reflect the sum of the total current loan portfolio and the total past due loan portfolio. For a breakdown of past due loans by loan type, see “—Past Due Loan Portfolio” below as well as Note 10 to our 2022 Financial Statements included elsewhere in this Offering Memorandum. For information on the different loan stages reflected in our 2022 financial information as a result of new accounting standards we have applied beginning on January 1, 2022, see “Selected Statistical Information—Loan Portfolio—Past Due Loan Portfolio” and Note 10 to our 2022 Financial Statements included elsewhere in this Offering Memorandum.

	As of December 31, 2022		
	Stage 1	Stage 2 (millions of Ps.)	Stage 3
Current loans:⁽¹⁾			
Commercial and corporate loans:⁽²⁾			
<i>Secured or guaranteed by:</i>			
Real estate ⁽³⁾	17,617	—	—
Fixed assets	3,459	10	—
Inventory	3,804	—	—
Other ⁽⁴⁾	457	125	—
Subtotal	25,337	135	—
<i>Unsecured:</i>			
Term loans	133,424	—	—
Revolving credits	606,393	18,261	—
Original issue discounts	32,617	245	—
Subtotal	772,434	18,506	—
Total commercial and corporate loans	797,771	18,641	—
	96.82%	99.28%	0.00%
Consumer loans:			
Residential mortgage	292,889	10,214	—
Credit card	139,286	3,740	—
Other consumer credits	203,567	4,537	—
Total consumer loans	635,742	18,491	—
Leasing credit	5,836	02	—
Total current loans	1,439,349	37,134	—
Total past due loans	—	—	22,886
Total loans	1,439,349	37,134	22,886
			As of December 31, 2022
Loans at fair value			
Current loans:⁽¹⁾			
Commercial and corporate loans:⁽²⁾			
Other ⁽⁴⁾			3,264
Subtotal			3,264
Other consumer credits			1,818
Total consumer loans			1,818
Total loans			5,082

- (1) The loan amounts set out in the above table do not include accrued interest.
(2) Includes loans to government entities and financial entities.
(3) Includes loans secured in whole or in part by cash, securities or property (including plant, inventory and equipment) and loans guaranteed by third parties.
(4) Includes various types of loans secured in whole or in part by cash, securities or other property (including plant, equipment otherwise not included above) and loans guaranteed by third parties.

	As of December 31,	
	2021	2020
(millions of Ps.)		
Current loans:⁽¹⁾		
Commercial and corporate loans:⁽²⁾		
<i>Secured or guaranteed by:</i>		
Real estate ⁽³⁾	13,684	12,862
Fixed assets	3,498	3,064
Inventories.....	4,118	3,645
Other ⁽⁴⁾	305	265
Subtotal	21,605	19,836
Unsecured:		
Term loans.....	56,156	43,608
Revolving credits.....	588,075	580,851
Original issue discounts.....	37,257	24,560
Subtotal	681,488	649,019
Total commercial and corporate loans	703,093	668,855
Consumer loans:		
Residential mortgage.....	272,547	248,339
Credit card.....	118,469	104,401
Other consumer credits.....	181,593	174,088
Total consumer loans	572,609	526,828
Leasing credit	6,935	7,115
Total current loans	1,282,637	1,202,798
Total past due loans	21,939	35,934
Total loans	1,304,576	1,238,732
FOBAPROA and IPAB Notes.....	—	—
Total loans and FOBAPROA and IPAB Notes	1,304,576	1,238,732

- (1) The loan amounts set out in the above table do not include accrued interest.
(2) Includes loans to government entities and financial entities.
(3) Includes loans secured in whole or in part by cash, securities or property (including plant, inventory and equipment) and loans guaranteed by third parties.
(4) Includes various types of loans secured in whole or in part by cash, securities or other property (including plant, equipment otherwise not included above) and loans guaranteed by third parties.

Loans by Currency

Foreign currency-denominated loans increased as a percentage of the total loan portfolio from 13.31% as of December 31, 2021 to 13.44% as of December 31, 2022. Foreign currency-denominated loans totaled Ps.202,255 million as of December 31, 2022, and Ps.173,688 million as of December 31, 2021, each as measured in constant pesos as of such date.

The following table presents the peso- and foreign currency-denominated loan portfolio at the dates indicated. Foreign currency-denominated loans that were not denominated in U.S. dollars were converted into U.S. dollars and then expressed in pesos in accordance with the methodology described in the introduction to the table under “— Average Balance Sheet and Interest Rate Data” above.

	As of December 31,			
	2021		2020	
	Loan Portfolio	%	Loan Portfolio	%
	(millions of Ps., except percentages)			
Total loans				
Peso-denominated loans.....	1,130,888	86.69	1,083,251	87.45
Foreign currency-denominated loans	173,688	13.31	155,481	12.55
Total loans	1,304,576	100.00	1,238,732	100.00

	As of December 31, 2022					
	Stage 1		Stage 2		Stage 3	
	Loan Portfolio	%	Loan Portfolio	%	Loan Portfolio	%
	(millions of Ps., except percentages)					
Total loans						
Peso-denominated loans	1,247,381	86.66	30,759	82.83	20,700	90.45
Foreign currency-denominated loans	191,968	13.34	6,375	17.17	2,186	9.55
Total loans	1,439,349	100.00	37,134	100.00	22,886	100.00

	As of December 31, 2022	
	Loan Portfolio	%
		(millions of Ps., except percentages)
Loans at fair value		
Total loans		
Peso-denominated loans	3,356	66.03
Foreign currency-denominated loans	1,726	33.97
Total loans	5,082	100.00

(1) The loans amount set out in the above table do not include accrued interest.

Loans to the Public and Private Sectors

As of December 31, 2022, our loans to the public sector totaled Ps.184,915 million, accounting for 12.85% of our total loan portfolio. As of December 31, 2021, our loans to the public sector amounted to Ps.172,405 million, accounting for 13.22% of our total loan portfolio.

Loans to individuals are loans to sole business owners, residential mortgage loans, credit card loans and other consumer loans. As of December 31, 2022, loans to individuals totaled Ps.671,479 million, representing 44.63% of our total loan portfolio. This amount in loans to individuals as of December 31, 2022 was primarily the result of greater loan origination.

The following table sets forth an analysis of the composition of our total loan portfolio at the dates indicated with respect to loans to both the public and private sectors.

	As of December 31,			
	2021		2020	
	Loan Portfolio	%	Loan Portfolio	%
	(millions of Ps., except percentages)			
Public sector ⁽¹⁾	172,405	13.22	161,470	13.04%
Private sector:				
Businesses.....	536,579	41.13	520,027	41.98%
Individuals ⁽²⁾	587,369	45.02	551,035	44.48%
Other private sector ⁽³⁾	8,223	0.63	6,198	0.50%
Total private sector loans	1,132,171	86.78	1,077,260	86.96%
Total loans	1,304,576	100.00%	1,238,730	100.00%

As of December 31, 2022

	Stage 1		Stage 2		Stage 3	
	Loan Portfolio	%	Loan Portfolio	%	Loan Portfolio	%
	(millions of Ps., except percentages)					
Public sector ⁽¹⁾	184,915	12.85	—	0.00	—	0.00
Private sector:						
Businesses	610,876	42.44	18,643	50.20	7,514	32.83
Individuals ⁽²⁾	635,798	44.17	18,491	49.80	15,372	67.17
Other private sector ⁽³⁾	7,760	0.54	—	0.00	—	0.00
Total private sector loans	1,254,434	87.15	37,134	100.00	22,886	100.00
Total loans	1,439,349	100.00	37,134	100.00	22,886	100.00
					Loans at fair value	%
Public sector ⁽¹⁾					—	
Private sector:						
Businesses					3,264	64.23%
Individuals ⁽²⁾					1,818	35.77%
Other private sector ⁽³⁾					—	

(1) Includes loans supported by the full faith and credit of the Mexican federal government.

(2) Includes loans to individuals for business activities as well as mortgage, credit card and other consumer loans and credit exposures connected to leasing.

(3) Includes loans to foreign banks, foreign companies, non-profit entities and certain other entities.

Current Commercial Loans

As of December 31, 2022, outstanding commercial and corporate loans totaled Ps.835,556 million. This amount was comprised of government and corporate loan balances. As of December 31, 2021, outstanding commercial and corporate loans totaled Ps.647,839 million, reflecting an increase compared to December 31, 2020. An increase of Ps.8,712 million in corporate loan balances was the primary factor in such increase.

As of December 31, 2022, the aggregate outstanding principal amount of our 25 largest loans (including loan exposures to a single corporate group or to an agency of the Mexican federal government) represented 20.42% of our total loans outstanding. The largest single loan exposure as of December 31, 2022 accounted for 2.55% of our total loans outstanding. As of December 31, 2022, of our 25 largest outstanding loans, all loans were rated “A1”. As of December 31, 2022, all 10 of our 10 largest outstanding loans, representing 13.86% of our total outstanding loans, were rated “A1.”

As of December 31, 2022, 99.99% of our bridge loan portfolio in the housing development segment, which is included in the commercial portfolio, was secured with collateral. Unsecured commercial loans, consisting primarily of short-term working capital loans (with terms of 30 to 90 days), are common in Mexico. The credit analysis process and administration of these loans are the same as for secured loans. If we establish an unsecured line of credit it is because we believe the borrower is a creditworthy customer, and the fact that it is an unsecured loan is taken into consideration during the approval process. The additional risk from originating unsecured commercial loans is generally accounted for through larger spreads to cover possible losses. The fact that a loan is unsecured is among several factors considered when we grade the portfolio and, depending on the results of this grading, an appropriate allowance for loan losses is created.

Current Consumer and Residential Mortgage Loans

As of December 31, 2022, current consumer loans (including residential mortgage loans) totaled Ps.659,335 million. As of December 31, 2021, current consumer loans (including residential mortgage loans) totaled Ps.572,609 million, an increase of 8.69% from December 31, 2020. As of December 31, 2020, current consumer totaled Ps.526,828 million. The preferred lending products for this market segment have been first residential mortgage loans and other consumer credits.

Our current residential mortgage loan portfolio totaled Ps.303,998 million as of December 31, 2022. This amount was primarily attributable to an increase in the price of financed houses. Our current residential mortgage loan portfolio totaled Ps.272,547 million as of December 31, 2021, an increase of 9.75% from December 31, 2020.

As of December 31, 2022, our current credit card portfolio totaled Ps.144,625 million. This amount in our current credit card portfolio is attributable to an improvement in the Bank's collections. As of December 31, 2021, our current credit card portfolio totaled Ps.118,469 million, an increase of 13.47% from December 31, 2020. As of December 31, 2020, our current credit card portfolio totaled Ps.104,401 million. We offer a wide array of different credit cards depending on the customer's monthly income and needs. Our credit card offerings include "BBVA Azul," "BBVA Oro," "BBVA Platinum," and "BBVA Infinite," which are accepted by merchants in Mexico and abroad. We also offer "Vive BBVA," a customer loyalty program which uses a credit card with an embedded intelligent microchip running proprietary software that was developed to offer real-time rewards to customers and marketing and merchandising flexibility to merchants.

Our robust risk analysis platform allows us to monitor and differentiate the behavior of each customer to better identify customers with debt problems early on, and offer them a support plan through preferential rates. Our support program also helps strengthen the credit card portfolio by offering better interest rates to credit card customers with higher credit scores, improving the quality of service and the loyalty of clients.

Loans by Economic Activity

In recent years, we have focused our lending activities towards those sectors of the Mexican economy that we believe, within the context of our overall risk management policies, have the greatest potential for growth. In addition, we have attempted to reduce our risk by diversifying our loan portfolio among a greater number of customers and within a larger geographic area in Mexico.

As of December 31, 2022, our residential mortgage loans totaled Ps.309,751 million, our credit card loans totaled Ps.146,052 million and our commercial loans totaled Ps.208,394 million. In the year ended December 31, 2022, we granted 36,824 new mortgage loans.

The following table sets forth an analysis of the composition of our loan portfolio at the dates indicated, by principal economic activity of our borrowers.

	As of December 31,					
	2022		2021		2020	
	Loan Portfolio	%	Loan Portfolio	%	Loan Portfolio	%
	(millions of Ps., except percentages)					
Economic Activity:⁽¹⁾						
Residential mortgages	309,751	20.59%	279,629	21.43%	257,430	20.78%
Social and community services ⁽²⁾	226,451	15.05%	204,433	15.67%	191,741	15.48%
Manufacturing	122,724	8.16%	99,985	7.66%	95,269	7.69%
Construction and real estate development	31,706	2.11%	27,580	2.11%	25,435	2.05%
Commercial ⁽³⁾	208,394	13.85%	168,270	12.90%	164,464	13.28%
Credit card	146,052	9.71%	121,501	9.31%	111,646	9.01%
Services ⁽⁴⁾	28,026	1.86%	28,411	2.18%	28,676	2.31%
Energy and utilities	74,778	4.97%	58,723	4.50%	65,002	5.25%
Other	356,569	23.70%	316,044	24.23%	299,069	24.14%
Total loans	1,504,451	100.00%	1,304,576	100.00%	1,238,732	100.00%

(1) The loan amounts set out in the above table do not include accrued interest amounts.

(2) Includes loans to the public sector.

(3) Includes loans for commercial activities not directly related to manufacturing as well as loans related to tourism.

(4) Includes credit extended to financial institutions.

Maturity Composition of the Commercial and Leasing Loan Portfolio

The following table sets forth an analysis with reference to the time remaining to maturity of our current commercial and leasing loan portfolio as of the dates indicated.

	As of December 31,					
	2022		2021		2020	
	Loan Portfolio	%	Loan Portfolio	%	Loan Portfolio	%
	(millions of Ps., except for percentages)					
Due within 1 year	241,966	29.31%	179,929	25.34%	172,373	25.50%
Between 1 and 5 year	305,561	37.01%	280,080	39.45%	235,678	34.87%
Over 5 years	277,987	33.67%	250,019	35.21%	267,919	39.63%
Total	825,514	100.00%	710,028	100.00%	675,970	100.00%

As of December 31, 2022, the total balance of our current commercial loans and leases was Ps.825.514 million. Of these loans, 29.31% were scheduled to mature within one year and were generally intended to cover the borrower's working capital requirements, the purchase of inventory or the financing of foreign commercial transactions.

Loans with maturities of more than one year were generally intended for the renovation of manufacturing plants and purchase of equipment, as well as the construction of factories.

Interest Rate Sensitivity of Outstanding Loans

The majority of our peso-denominated loans have rates that are reset at least every 28 days. All rates are determined either by reference to a marginal variable rate or the higher of several reference rates. We began using the THIE as a reference rate following its establishment in 1995.

The following table sets forth our fixed-rate and variable rate current loan portfolio.

	As of December 31,		
	2022	2021	2020
	(millions of Ps.)		
Commercial and corporate loans:			
Fixed-rate	252,255	212,514	203,604
Variable rate ⁽¹⁾	580,815	504,625	484,012
Total	833,070	717,139	687,616
Total past due commercial loans	7,556	7,111	11,645
Allowances for loan losses	(10,431)	(9,961)	(10,912)

(1) Includes loans that mature or reprice every 30 or fewer days, which we consider to be effectively variable rate loans.

(2) Loan amounts do not include accrued interest.

Past Due Loan Portfolio

At the time of contracting, letters of credit are recorded in the memorandum accounts under "Loan commitments" which, when drawn down by the client or its counterparty, are transferred to the loan portfolio. In March 2020, the CNBV published in the Federal Official Gazette Resolution 123, which amends the General Rules Applicable to Mexican Banks to incorporate amendments to the accounting criteria, and amend, among others, the classification and rating of the loan portfolio in accordance with international standards contained in IFRS 9, applicable as of January 1, 2022. This implies changes in the methodologies for loan portfolio rating, both for Standard and Internal Models (IR Models) and Standard and Internal Rating Based Models (IRB), in accordance with the IFRS 9.

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

Stage 1 loan portfolio

Loans in this category or those in which the risk has not increased significantly from the initial recognition of the asset to the date of the financial statements and that do not meet the conditions to be considered as stage 2 or 3 loans pursuant to Criterion B-6 of Annex 33 of the General Rules Applicable to Mexican Banks. The loans in this portion of the loan portfolio consist of (i) commercial loans that are less than 30 days past due, (ii) consumer non-revolving loans and mortgage loans with a backlog number of less than 1, and (iii) consumer revolving loans with a number of non-payments of less than 1.

Stage 2 loan portfolio

Loans in this category are those that show a significant increase in risk from the initial recognition of the asset to the date of the financial statements in accordance with the provisions of the models for calculating the allowance for loan losses or the General Rules Applicable to Mexican Banks. The loans in this portion of the portfolio consist of (i) commercial loans that are more than 30 days past due and less than 90 days past due, (ii) consumer non-revolving loans and mortgage loans with a backlog number greater than 1 and less than 3, (iii) consumer revolving loans with a number of non-payments greater than 1 and less than 3, and (iv) loans that, according to the portfolio manager, should be specially monitored.

Stage 3 loan portfolio

Loans in this category are those with credit impairment resulting from the occurrence of one or more events that have a negative impact on expected future cash flows pursuant to Criterion B-6 of Annex 33 of the General Rules Applicable to Mexican Banks. The loans in this portion of the portfolio consist of loans that are 90 or more days past due, as provided below.

- Mortgage loans with periodic repayment of principal and interest which are 90 or more days past due are classified as stage 3 loans.
- Checking accounts showing overdrafts that do not have authorized credit lines are classified as stage 3 loans as of the date of the overdraft.
- Loans of borrowers that have been declared insolvent (*concurso mercantil*), except for those loans that continue to receive payments and that were granted for the purpose of maintaining the ordinary operation of a company and the necessary liquidity during an insolvency proceeding (*concurso mercantil*), in accordance with the provisions of Section VIII of Article 43 of the Commercial Insolvency Law, in accordance with the provisions of Article 75 in connection with Sections II and III of Article 224 of the Commercial Insolvency Law, are classified as stage 3 loans.
- Immediate collection documents referred to in Accounting Criterion B-1, “Cash and Cash Equivalents,” of the CNBV when not collected within the allotted period (two or five days as appropriate) are classified as stage 3 loans.

The maturity of loans referred to in the preceding paragraphs may be referred to by monthly periods, 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 continue to be classified as stage 3 so long as there is no evidence of sustained payment.

In addition, the General Rules Applicable to Mexican Banks provide that financial institutions may establish criteria that allow them to migrate loans to stages 2 or 3, without the need to meet the criteria set forth in the indicated standard methodologies. For information on the different loan stages reflected in our 2022 financial information as a result of new accounting standards we have applied beginning on January 1, 2022, see “Selected Statistical Information—Loan Portfolio—Past Due Loan Portfolio” and Note 10 to our 2022 Financial Statements included elsewhere in this Offering Memorandum.

Sustained payments

Payments are considered to be sustained 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 determining whether payments have been sustained.

For restructurings in which payment periodicity is modified to shorter periods, the number of repayments of the original loan schedule must be considered for purposes of determining whether payments have been sustained.

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 repayments equivalent to the longest term of the original payment schedule of the loan must be taken into account .

In any case, in demonstrating that there is sustained payment, the Bank 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 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
- 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 the required time period having elapsed, calculated in calendar days.

In any case, loans that, due to a restructuring or renewal, are transferred to a stage reflecting greater credit risk must remain in such stage for a minimum of three months in order to prove sustained payment and may 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.

As of December 31, 2022, the total balance of our past due loans was Ps.23,848 million, or 1.59% of our total loan portfolio. Of this amount, Ps.962 million, or 4.03% of total past due loans, represented past due accrued interest. The total balance of past due consumer loans as well as the total balance of past due consumer credit card loans were mainly due to a change in the write-off policy imposed by new regulations.

As of December 31, 2021, the total balance of our past due loans was Ps.22,699 million, or 1.74% of our total loan portfolio, compared to Ps.37,484 million as of December 31, 2020, representing a decrease of Ps.14,785 million. Of this amount, Ps.760 million, or 3.35% of total past due loans, represented past due accrued interest. The total balance of past due consumer loans decreased by Ps.8,009 million, or 49.6%, during 2021, as compared to 2020. This decrease is mainly explained by strong asset quality management, as well as the positive performance of our customers' loan payments and the application of write-offs in our loan portfolio in the amount of Ps.37,687 million, mainly in the retail segment.

As of December 31, 2020, the total balance of our past due loans was Ps.37,484 million, or 3.01% of our total loan portfolio. Of this amount, Ps.1,550 million, or 4.14% of total past due loans, represented past due accrued interest. Total past due loans increased by Ps.10,030 million, or 36.53%, in the year ended December 31, 2020, compared to 2019, as the total balance of past due consumer loans decreased by Ps.2,996 million, or 70.48%, mainly due to a change in the write-off policy imposed by new regulations.

The following table sets forth an analysis of past due loans by type of loan at the dates indicated.

	As of December 31,		
	2022	2021	2020
	(millions of Ps.)		
Past due loans:			
Commercial and corporate loans:			
Unsecured.....	6,135	5,376	7,557
Secured.....	1,272	1,702	4,054
Consumer loans:			
Residential mortgage.....	6,647	7,083	9,090
Credit card.....	3,026	3,032	7,247
Other consumer credits.....	5,657	4,713	7,952
Leasing receivables.....	149	33	34
Past due interest.....	962	760	1,550
Total past due loans	23,848	22,699	37,484
Allowance for loan losses.....	(49,588)	(34,810)	(48,236)
Total past due loan portfolio net of allowance for loan losses	(25,740)	(12,111)	(10,752)

Grading of Loan Portfolio

Large Enterprises and Enterprises

The commercial portfolio classified under “Enterprises” is comprised of enterprises with annual net sales over Ps.130 million and U.S.\$50 million and enterprises with annual net sales over Ps.60 million and below Ps.30 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 U.S.\$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 Ps.60 million and less than U.S.\$50 million, 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 CNBV authorized our implementation plan using our internal methodologies for reserves and allowances based on MFRS 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 Mexican Banking Law (*Ley de Instituciones de Crédito*). Such internal methodologies were based on information as of September 30, 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 General Rules Applicable to Mexican Banks:

- 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.

In accordance with the General Rules Applicable to Mexican Banks and since the Bank applies internal reserve methodologies based on MFRS C-16 "Impairment of financial instruments receivable," 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 CNBV authorized our implementation plan of our internal methodologies for reserves and allowances based on MFRS C-16, to determine the allowance for loan losses by credit risk level, as of January 1, 2022 of the SME portfolio, in accordance with the provisions of Article 139 Bis 3, Section I of the Mexican Banking Law (*Ley de Instituciones de Crédito*).

In November 2022, the Bank requested approval from the CNBV to update the implementation plan for the consumer non-revolving ("CNR") and SME portfolios, to defer the determination of allowance for loan losses under Internal Reserve Methodologies under MFRS C-16.

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

Commercial loans other than for large enterprises and enterprises

The Bank 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 General Rules Applicable to Mexican Banks.

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:

$$Reserves\ Stage\ 1\ or\ 3_i = R_i = PD_i \times LGD_i \times EAD_i$$

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.

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:

$$\begin{aligned}
 \text{Full Life Reserves}_i &= \frac{PD_i \times LGD_i \times EAD_i}{(1 + r_i)} \times \left[\frac{1 - (1 - PD_i)^n}{PD_i} \right] - \frac{PD_i \times LGD_i \times PAYMENT_i}{r_i(1 + r_i)} \times \left[\frac{1 - (1 - PD_i)^n}{PD_i} \right] \\
 &+ \frac{PD_i \times LGD_i \times PAYMENT_i}{r_i(r_i + PD_i)} \times \left[1 - \left(\frac{1 - PD_i}{1 + r_i} \right)^n \right]
 \end{aligned}$$

- (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:

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

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:

$$\text{PAYMENT}_i = EAD_i \times (1 + r_i) \times \frac{(1 - (1 + r_i)^{-1})}{(1 - (1 + r_i)^{-n})}$$

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

$$\text{Reserves Stage 2}_i = \text{Max} (\text{Full Life Reserves}_i, PD_i \times LGD_i \times EAD_i)$$

PD_i will be calculated according to the following equation:

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

For purposes of the foregoing:

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

$$\text{Total Credit Score}_i = \alpha \times (QCSt_i) + (1 - \alpha) \times (QCSli)$$

Where:

Quantitative Credit Score_i = (*QCSt_i*) = The score obtained for the i-th borrower when evaluating the risk factors according to the General Rules Applicable to Mexican Banks.

Qualitative Credit Score_i = (*QCSli*) = The score obtained for the i-th borrower when evaluating the risk factors according to the General Rules Applicable to Mexican Banks.

α = The relative weight of the quantitative credit score stated in Schedules 21 or 22 of the General Rules Applicable to Mexican Banks, 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 of the General Rules Applicable to Mexican Banks.
- (b) 55% for preferred positions classified under schedule 21 of the General Rules Applicable to Mexican Banks.
- (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:

- (a) 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:

$$EAD_i = S_i$$

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

- (a) For loans classified under Schedule 22 of the General Rules Applicable to Mexican Banks that have a drawn balance as of the rating date:

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

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

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

- (b) For loans classified under Schedule 21 of the General Rules Applicable to Mexican Banks that have a drawn balance as of the rating date:

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

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

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

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 stage 3.

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

The Bank 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 General Rules Applicable to Mexican Banks.

Acceptable collateral may be financial and nonfinancial. Also, collateral is recognized only if it complies with the requirements established by the CNBV in the General Rules Applicable to Mexican Banks.

Portfolio of Mexican states and municipalities (governments)

For rating states and municipalities, the Bank considers the PD, LGD and EAD factors under the General Rules Applicable to Mexican Banks, as follows:

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

$$Reserves\ Stage\ 1\ or\ 3_i = R_i = PD_i \times LGD_i \times EAD_i$$

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.

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:

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

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

$$Reserves\ Stage\ 2_i = Max (Full\ Life\ Reserves_i, PD_i \times LGD_i \times EAD_i)$$

PD_i will be calculated according to the following equation:

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

For purposes of the foregoing:

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

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

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 Bank in the last seven 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 Mexican states and municipalities, described in section I of schedule 18 of the General Rules Applicable to Mexican Banks, institutions must determine the allowances as the product of the percentage of reserves by the *EADi*. The above, regardless of the fact that institutions must estimate and report the calculation of the *PDi*.

When the loan is guaranteed by the government, in accordance with the provisions of the Law of Financial Discipline for Federal Entities and Municipalities (*Ley de Disciplina Financiera de las Entidades Federales y Municipios*), the credit reserve will be 0.5% of the *EADi*.

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 (*fondos de contribucion federal*), 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

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

Range over DSCR	Percentage
DSCR <= 0.75	0.1242

The debt service coverage ratio is calculated as follows:

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

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 Mexican 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 of the General Rules Applicable to Mexican Banks with a drawn balance as of the rating date:

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

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

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

For loans classified under schedule 21 of the General Rules Applicable to Mexican Banks that have a drawn balance as of the rating date:

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

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

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

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 stage 3.

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

The Bank 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 CNBV are recognized.

Allowances for the commercial loan portfolio, established by the Bank 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%

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 CNBV authorized our implementation plan of our internal methodologies for reserves and allowances based on MFRS 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 General Rules Applicable to Mexican Banks. 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 General Rules Applicable to Mexican Banks:

- PD: An estimate of the likelihood of default over a given time horizon.
- LGD: An estimate of the loss arising in case of a default. It is based on the difference between the contractual cash flows due and those that the 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.

Non-revolving consumer portfolio

Pursuant to official communication 121-1/14591541/2022, dated January 10, 2022, the CNBV authorized the implementation plan of the Internal Methodologies for reserves and allowances based on MFRS 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 Mexican Banking Law (*Ley de Instituciones de Crédito*).

In November 2022, the Bank requested approval from the CNBV to update the implementation plan for the CNR and SME portfolios, to defer the determination of allowance for loan losses pursuant to internal reserve methodologies under MFRS C-16.

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

Pursuant to Resolution issued by the CNBV on January 6, 2017, the Bank 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:

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

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 the acquisition of long-lasting consumer goods (*Adquisición de Bienes de Consumo Duradero* or "ABCD") ("B"), automobile ("A"), payroll ("N"), personal ("P"), other ("O").

For rating non-revolving consumer portfolio, the Bank 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 General Rules Applicable to Mexican Banks for each loan type, borrower's payment behavior variables within the Bank 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 Bank 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%

Risk Level	Ranges of Percentage of Allowances
C-2	8.01% to 15.00%
D	15.01% to 35.00%
E	35.01% to 100.00%

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 CNBV authorized the implementation plan of the Internal Methodologies for reserves and allowances based on MFRS 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 Mexican Banking Law (*Ley de Instituciones de Crédito*). 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 Bank recognized allowance for loan losses based on the following criteria.

Commercial loan portfolio

Large enterprises and enterprises

The commercial portfolio classified under “Large Enterprises” (annual net sales over U.S.\$50 million) and “Enterprises” (annual net sales over Ps.60 million and below U.S.\$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 Ps.60 million and Ps.130 million), respectively, the CNBV approved to the Bank 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 General Rules Applicable to Mexican Banks.

Also, pursuant to official communications 121-1/1744/2018 dated April 19, 2018 and 121-1/118708/2019 dated July 19, 2019, the CNBV 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 Bank 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 CNBV approved the update of the parameters considered by said model, with information up to 2018, parameters that have been applied by the Bank as of December 31, 2020 for the commercial portfolio groups of Enterprises.

As the Bank 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 than for large enterprises and enterprises

For rating the commercial portfolio, other than the portfolio corresponding to large enterprises and enterprises, the Bank considers the PD, LGD and EAD factors pursuant to the General Rules Applicable to Mexican Banks as follows:

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

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

Where:

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

$$PD_i = \frac{1}{1 + e^{-(500 - \text{Total Credit Score}_i) \times \frac{\ln(2)}{40}}}$$

For purposes of the foregoing:

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

$$\text{Total Credit Score}_i = \alpha \times (QCSt_i) + (1 - \alpha) \times (QCSl_i)$$

Where:

*Quantitative Credit Score*_i = (QCSt_i) = The score obtained for the i-th borrower when evaluating the risk factors according to the General Rules Applicable to Mexican Banks.

*Qualitative Credit Score*_i = (QCSl_i) = The score obtained for the i-th borrower when evaluating the risk factors according to the General Rules Applicable to Mexican Banks.

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:

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:

$$EAD_i = S_i$$

For other credit lines:

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

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 nonperforming portfolio.

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

The Bank 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 General Rules Applicable to Mexican Banks.

Acceptable collateral may be financial and nonfinancial. Also, collateral is recognized only if it complies with the requirements established by the CNBV in the General Rules Applicable to Mexican Banks.

Portfolio of States and their municipalities (governments)

For rating states and municipalities, the Bank considers the PD, LGD and EAD factors under the General Rules Applicable to Mexican Banks, as follows:

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

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

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:

$$PD_i = \frac{1}{1 + e^{-(500 - \text{Total Credit Score}_i) \times \frac{\ln(2)}{40}}}$$

For purposes of the foregoing:

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

$$\text{Total Credit Score}_i = \alpha \times (QCSt_i) + (1 - \alpha) \times (QCSl_i)$$

Where:

$QCSt_i$ = Quantitative Credit Score = IA + IB + IC

$QCSl_i$ = Qualitative Credit Score = IIA + IIB

α = 80%

IA = Average days in arrears with banking institutions + % 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 $LGDi$ of the loans granted to Mexican 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:

$$EAD_i = S_i + Max \left\{ \left(\frac{S_i}{Authorized\ Credit\ Line} \right)^{-0.05794}, 100\% \right\}$$

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 Bank 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 CNBV are recognized.

Allowances for the commercial loan portfolio, established by the Bank 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 0.90%
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%

Mortgage loan portfolio

Pursuant to official communication 121-1/1813/2018 dated November 16, 2018, the CNBV approved the Bank's prospective application of its 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 CNBV approved the update of the parameters considered by the Bank's model, with information up to 2018, parameters that have been applied by the Bank as of August 31, 2020 for the residential mortgage portfolio groups.

For rating mortgage loan portfolio, the Bank 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 Bank 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%

Non-revolving consumer portfolio

Pursuant to Resolution issued by the CNBV on January 6, 2017, the Bank 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:

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

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 the non-revolving consumer portfolio, the Bank 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 Bank 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 Bank 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%

Consumer credit card loan portfolio

The CNBV approved the Bank'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 CNBV approved the update of the parameters that consider the Bank's model as the use of historical information until 2017, which parameters have been applied by the Bank as of July 2019.

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

For rating revolving consumer portfolio, the Bank 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 Bank 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%

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

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

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

If any of the conditions described in the preceding paragraph is not fulfilled, loans are classified as past due from their restructuring or renewal date until evidence of sustained payment is obtained. Current 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 current 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 any of the conditions described in the preceding paragraph are not fulfilled, loans are classified as past due from their restructuring or renewal date until evidence of sustained payment is obtained.

Loans with a single principal payment and the payment of interest periodically or at maturity and which are restructured prior to maturity or renewed at any time, are classified as part of the past due portfolio until evidence of sustained payment is obtained.

Loans which are initially classified as revolving and which are restructured or renewed prior to maturity only considered as current 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, and it can be established that it is highly likely that the borrower will settle the outstanding payment.

Deductions, forgiveness, bonuses and discounts are recorded with a charge to the allowance for loan losses. If the amount thereof exceeds the balance of the estimate associated with the loan, estimates are previously made up to the amount of the difference.

Securitization with Transfer of Ownership

When securitizing the mortgage loan portfolio with transfer of ownership, the Bank transfers the financial assets through a securitization vehicle (the “**Trust**”), enabling the Trust to issue securities, which represent the right to the returns or the proceeds generated from the securitized financial asset, through an intermediary for placement among small investors. As consideration, the Bank receives cash and a certification granting it the right to the remaining flows from the Trust after payment of the certificates to their holders.

On December 17, 2007, the CNBV authorized the Bank, through Document 153/1850110/2007, registered in the RNV of the Share Certificate Issuance Program, to issue up to Ps.20,000 million or the equivalent in UDIs with an effective term of five years (computed as of the authorization date) on a revolving basis.

The benefit valuation methodology applied to the securitized transaction residual as follows:

- The Bank has tools to measure and quantify the impact of securitized transactions on the consolidated balance sheet and statement of income based on the cost of funding, release of capital, reserves and liquidity levels when structuring issuances and during the life of each.
- The valuation system measures the follow-up of certificate performance and the subordinated positions recorded by the Bank 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 Bank's constant historical prepayment rate computation, the mortality rate, credit percentage, interest rate, issuance amount and value of guarantees with respect to the loan guarantee, among other items.

During 2022, trust F-881 was liquidated. As of December 31, 2022, the Bank had no securitization trusts.

The characteristics of securitization contracts are detailed in Note 12 to our Audited Financial Statements included elsewhere in this Offering Memorandum.

	As of December 31,					
	2022		2021		2020	
	Amount	%	Amount	%	Amount	%
	(millions of Ps., except for percentages)					
Total graded loans:						
A1	1,157,766	76.49%	1,017,460	72.91%	947,768	71.55%
A2	73,235	4.84%	87,372	6.26%	103,111	7.78%
B1	88,453	5.84%	95,789	6.86%	84,092	6.35%
B2	46,601	3.08%	63,891	4.58%	54,500	4.11%
B3	30,422	2.01%	31,999	2.29%	39,311	2.97%
C1	42,060	2.78%	46,002	3.30%	28,010	2.11%
C2	30,078	1.99%	22,120	1.59%	21,523	1.62%
D	24,987	1.65%	10,152	0.73%	14,949	1.13%
E.....	20,037	1.32%	20,723	1.48%	31,382	2.37%
Total	1,513,639	100.00%	1,395,508	100.00%	1,324,646	100.00%
Allowances grading of our loans.....	42,670		33,660		40,317	
Charge-offs applied after the grading.....	—		—		—	

	As of December 31,					
	2022		2021		2020	
	Amount	%	Amount	%	Amount	%
	(millions of Ps., except for percentages)					
Past due interest	—		656		1,364	
Excess over minimum regulatory requirements	6,918		486		6,544	
Bank allowance.....	49,588		34,802		48,225	
Trust F-881 allowance	—		8		11	
Total allowance for loan losses.....	49,588		34,810		48,236	
Allowance as a percentage of:						
Graded loans		3.28%		2.49%		3.64%
Total loans plus interest⁽¹⁾.....		3.27%		2.70%		3.87%
Total past due amount.....		207.93%		153.35%		128.68%
Total past due as a percentage of total loans plus interest⁽¹⁾.....		1.57%		1.73%		3.01%
Total net past due loans (past due amounts less allowances) as a percentage of net total loans plus interest⁽¹⁾		(1.70)%		(0.95)%		(0.90)%

(1) Interest includes past due and outstanding interest.

As of December 31, 2022, the aggregate outstanding principal amount of our 25 largest loans (including loan exposures to a single corporate group or to an agency of the Mexican federal government) represented 20.42% of our total loans outstanding. The largest single loan exposure as of December 31, 2022 accounted for 2.55% of our total loans outstanding. As of December 31, 2022, of our 25 largest outstanding loans, all loans were rated “A1”. As of December 31, 2022, all 10 of our 10 largest outstanding loans, representing 13.86% of our total outstanding loans, were rated “A1.”

Allowance for Loan Losses

General

We provide for possible loan losses in accordance with the regulations of the CNBV and are in compliance with regulatory loan loss allowance requirements. The grading of loans determines the amount of the allowance for loan losses required to be set aside. See “—Grading of Loan Portfolio” above. The amount reserved for loan losses is held in a separate account on our balance sheet and all charge-offs for uncollectible loans are made against this reserve. Mexican banks are required to obtain authorization from their boards of directors in order to charge off loans. In addition, Mexican banks are required to inform the CNBV after such charge-offs have been recorded. For a discussion of our charge-off policy, see “Annex A—Significant Differences Between Mexican Banking GAAP and U.S. GAAP” and “Annex B—Significant Differences Between Mexican Banking GAAP and IFRS.”

As of December 31, 2022, we recorded loan loss provisions charged against earnings totaling Ps.35,619 million. Our allowance for loan losses as a percentage of past due loans was 207.9% as of December 31, 2022, as compared to 153.35% as of December 31, 2021. As of the date of this Offering Memorandum, we believe that our current loan loss allowance is adequate for all known or knowable losses on our assets.

Analysis of Allowance for Loan Losses

The following table analyzes our loan loss allowances and movements in loan charge-offs and recoveries for the periods indicated, as well as changes to income and period-end allowances for loan losses.

	For the Year Ended December 31,		
	2022	2021	2020
	(millions of Ps.)		
Balance at beginning of period.....	34,810	48,236	35,411
Increase:			
Provision charged against earnings	35,619	26,382	47,090
Recoveries ⁽¹⁾	1,805	1,932	1,335
Provisions charged against equity	8,052	—	9
Exchange rate revaluation	152	230	202
Inflation revaluation of the UDI program.....	11	10	5

Subtotal	45,639	28,554	48,641
Decrease:			
Exchange rate revaluation	230	195	222
Other charge-off	30,611	41,785	35,594
Purchase	20	—	—
Subtotal	30,861	41,980	35,816
Balance at end of period	49,588	34,810	48,236

(1) We may continue our recovery efforts with respect to certain past due loans after the date on which such loans are formally written off. We do not generally maintain a threshold time limit in respect of past due loans, following the expiration of which such loans are automatically charged off.

Allocation of Allowance for Loan Losses by Category

	As of December 31,					
	2022		2021		2020	
	Allowance	%	Allowance	%	Allowance	%
	(millions of Ps., except for percentages)					
Commercial, financial and agriculture	10,073	20.31	9,926	28.52	10,883	22.57
Residential mortgages	3,289	6.63	3,844	11.04	4,077	8.45
Credit Card	13,674	27.58	9,062	26.04	11,703	24.27
Other consumer loans	15,276	30.81	10,801	31.02	13,636	28.26
Leases	358	0.72	35	0.10	29	0.06
Excess over minimum regulatory requirements ...	6,918	13.95	486	1.39	6,544	13.56
Past due interest	—	—	656	1.88	1,364	2.82
Total	49,588	100.00	34,810	100.00	48,236	100.00

Foreclosed Real Estate and Other Assets

Changes in the value of properties and associated reserves during 2022 were due to the change in the CNBV regulations applicable as of January 1, 2022, which led to a recognition in stockholders' equity of Ps.338 million due to the release of associated reserves. The decrease in the value of foreclosed properties and their associated reserves in 2021 as compared to 2020 was Ps.1,317 million due to the fact that 3,143 properties were sold in that year.

Under CNBV regulations, Mexican banks that are awarded title to foreclosed property in a judicial auction are required to account for such property at the amount set at the auction. Real estate assets received by the bank in a negotiated settlement with the borrower must be recorded at the lower of the appraised value of the property and the amount of the loan recorded in such settlement. In addition, although time limits to sell foreclosed real estate assets or real estate assets received by the bank in negotiated settlements have not been eliminated from the regulations, as a general practice such time limits have been waived by the CNBV in order to allow banks to sell such assets, subject to market conditions and liquidity requirements.

We operate a specialized unit that administers foreclosed real estate and manages all activities related to the administration, marketing and sale of such properties.

The following table sets forth, by type of property, the book value of foreclosed real estate and non-real estate assets at December 31, 2022, 2021 and 2020.

	As of December 31,		
	2022	2021	2020
	(millions of Ps.)		
Real estate			
Rural land	119	145	185
Urban land	765	1,115	1,183
Family houses	1,792	1,676	1,893
Condominium	423	351	283
Industrial plants	22	38	198
Commercial building	326	276	94
Other	103	40	551
Subtotal real estate	3,550	3,642	4,387

	As of December 31,		
	2022	2021	2020
	(millions of Ps.)		
Allowance for real estate	(1,939)	(2,653)	(3,070)
Foreclosed assets, net	1,611	989	1,317
Non-real estate	12	12	17
Allowance for non-real estate	(12)	(12)	(17)
Total non-real estate	—	—	—
Property type	3,562	3,654	4,404
Allowance for impairment of foreclosed assets	(1,951)	(2,665)	(3,087)
Foreclosed assets, net	1,611	989	1,317

Other Restructuring Programs

We operate a central workout unit in Mexico City, as well as four smaller credit recovery units operating throughout Mexico. Recovery prospects are measured by reference to a scale of 1 through 8, with a loan ranked 1 deemed to have the best recovery prospect and a loan ranked 8 deemed to have the worst recovery prospect. The credit recovery units are automatically engaged in the recovery of past due loans ranked 6 or higher.

If a credit recovery unit is unable to reach an agreement with a borrower in respect of past due loan amounts and the borrower fails to propose terms for an alternative satisfactory restructuring agreement, the unit submits the loan to our litigation department for the initiation of an action to recover the loan. Foreclosure procedures on collateral in Mexico can take a long period of time. These procedures require the filing of a written petition with a Mexican court requesting the court's authorization to complete the foreclosure. This petition and its approval process are generally subject to significant delays. Accordingly, the value of the collateral may be impaired during the foreclosure process as a result of delays or other factors. As a result, there can be no assurance that the rate of past due loan recoveries will not decrease in the future.

When the recovery of loans has been unsuccessful, despite the implementation of workout procedures and litigation, these loans are charged-off.

Short-Term Borrowings and Repurchase Agreements

The following table sets forth our short-term borrowings and securities sold under agreements to repurchase for the periods indicated.

	As of December 31,					
	2022		2021		2020	
	Amount	Rate	Amount	Rate	Amount	Rate
	(millions of Ps., except percentages)					
Short-term borrowings:						
At end of period	21,758	2.84%	21,781	1.85%	86,913	0.46%
Daily average indebtedness during period	24,503	2.52%	14,349	2.81%	12,675	3.18%
Maximum month-end balance	30,110		21,781		9,702	
Debtors from repurchase agreements:						
At end of period	187,057	7.43%	173,973	10.08%	263,716	6.65%
Daily average indebtedness during period	252,253	5.51%	331,669	5.29%	294,775	5.95%
Maximum month-end balance	284,664		344,450		322,146	
Total:						
At end of period	208,815	6.95%	195,754	9.17%	350,629	5.12%
Daily average indebtedness during period	276,756	5.24%	346,048	5.18%	307,450	5.84%
Maximum month-end balance	314,774		366,231		331,848	

Deposits

The following table presents the components of our deposit base for the periods indicated.

	As of December 31,		
	2022	2021	2020
		(millions of Ps.)	
Interest-bearing demand deposits:			
Peso-denominated	510,218	870,355	402,048
Foreign currency-denominated.....	143,312	152,834	130,320
Subtotal	653,530	1,023,189	532,368
Non-interest-bearing demand deposits:			
Peso-denominated	636,548	142,711	491,584
Foreign currency-denominated.....	76,344	75,222	59,419
Subtotal	712,892	217,933	551,003
Saving deposits:			
Peso-denominated	—	—	—
Foreign currency-denominated.....	—	—	—
Subtotal	—	—	—
Time deposits:			
Peso-denominated	289,519	266,699	282,303
Foreign currency-denominated.....	50,546	50,520	49,194
Subtotal	340,065	317,219	331,497
Total	1,706,487	1,558,340	1,414,868

THE TEXAS AGENCY

General

On June 2, 2003, the Texas Agency was issued a license by the commissioner of the Texas Department of Banking under the Texas Finance Code (the “**Commissioner**”). Through the Texas Agency, we are a foreign bank licensed to transact business in the State of Texas under the Texas Finance Code. The Texas Agency’s registered office is located at 5075 Westheimer Road, Suite 1260W, Houston, Texas, United States of America; the Texas Agency’s telephone number is 713-341-8200; and the Texas Agency’s charter number is 5030-03. On September 18, 2021, the Texas Department of Banking re-issued the license to the Texas Agency in order to reflect the legal name change to BBVA México, S.A., Institución de Banca Múltiple, Grupo Financiero BBVA México.

A licensed foreign bank agency in the State of Texas has the powers outlined in the Texas Finance Code, including, but not limited to, the power to (i) borrow and lend money with or without property as security and (ii) buy or acquire and sell or dispose of a bill of exchange, draft, note, acceptance or other obligation for the payment of money. The Texas Agency may not accept deposits from citizens or residents of the United States, other than credit balances that are incidental to or arise out of the exercise of other lawful banking powers, but may accept deposits from persons who are neither citizens nor residents of the United States.

Activities

The Texas Agency is not an entity separate and distinct from BBVA México, S.A., Institución de Banca Múltiple, Grupo Financiero BBVA México. The Texas Agency is required to keep the assets of our business in the State of Texas, including the assets of the Texas Agency, separate and apart from the assets of our business outside of the State of Texas. Our depositors and creditors arising out of transactions with, and recorded on the books of, the Texas Agency are entitled to absolute preference and priority over the depositors and creditors of our offices located outside of the State of Texas with respect to our assets located in the State of Texas. The majority of transactions of the Texas Agency are performed under our direction and involve issuing debt on our behalf, booking loans originated at our home office and accepting deposits from non-United States corporations, government agencies, or persons who reside, are domiciled, and maintain their principal place of business in a foreign country.

Regulation of the Texas Agency

Under Mexican law, the Texas Agency’s obligations are our obligations. The Texas Agency is subject to regulations issued by the CNBV and *Banco de México*, including liquidity requirements as well as applicable regulations issued by the Texas Department of Banking and the Federal Reserve Board. See “Supervision and Regulation—Liquidity Requirements for Foreign Currency-Denominated Liabilities.”

The Texas Agency is examined by the Texas Department of Banking and is generally subject to all of the laws of the State of Texas that are applicable to a Texas state bank. The Texas Agency is required to keep on deposit with unaffiliated banks in the State of Texas certain money and securities pledged to the Commissioner, and such required amount is subject to the conditions and limitations the Commissioner considers necessary or desirable for the maintenance of a sound financial condition, the protection of the creditors and depositors of the Texas Agency’s business in the State of Texas, the public interest in the State of Texas, and the support of public confidence in the business of the Texas Agency. At this time, the Commissioner has not imposed upon the Texas Agency any requirement to maintain a specific ratio of assets to liabilities appearing on the books, accounts and records of the Texas Agency or liquidity requirements. However, the Commissioner has the discretion to impose such requirements as may be necessary or desirable to reflect differences among Texas agencies because of (i) the financial condition of the Texas agency offices of the foreign bank, (ii) the financial condition of the branch or agency offices of the foreign bank located in other states, (iii) the general economic conditions prevalent in the home country of the foreign bank, or (iv) the financial condition of the foreign bank itself, including the financial condition of branches or agencies in other countries, the financial condition of its affiliated bank and non-bank subsidiaries in the United States and the financial condition of the foreign bank on a worldwide consolidated basis or in its home country.

The Texas Agency is required to disclose that deposits and credit balances in the Texas Agency’s offices are not insured by the Federal Deposit Insurance Corporation.

The Texas Finance Code authorizes the Commissioner to take enforcement actions to revoke the license of a foreign bank agency or to seize the assets that are located in Texas of a non-United States bank for a variety of offenses, including but not limited to, if the Commissioner by examination or other credible evidence finds that the foreign bank (i) has refused to permit the Commissioner to examine its books, papers, accounts, records or affairs, (ii) has failed to

make a report required or made a material false or misleading statement in the report, (iii) has misrepresented or concealed a material fact in the original application for license, or (iv) conducts business in an unsafe and unsound manner. If the Commissioner finds that certain conditions have been met, including consideration of the foregoing factors and others established by statute, and that it is necessary for the protection of the interests of creditors of the foreign bank's business in the State of Texas or for the protection of the public interest, the Commissioner may initiate a variety of enforcement measures, including, without limitation, the following: (i) the Commissioner may issue, without notice and hearing, an order suspending or revoking the license of the foreign bank for a period of up to ninety (90) days, pending investigation or hearing, or (ii) the Commissioner may by order immediately take possession of the property and business of the foreign bank in the state of Texas and as soon as practicable thereafter initiate a receivership proceeding to liquidate the property and business of the foreign bank in the State of Texas, under circumstances and using procedures similar to those used to liquidate a Texas state bank, except that the depositors and creditors of a Texas agency, arising out of transactions with and recorded on the books of a Texas agency, would have an absolute preference and priority over the creditors of the foreign bank located outside of the State of Texas. Upon issuing a final order revoking the license of a foreign bank, such foreign bank must immediately cease all activity in the State of Texas requiring a license. After the Commissioner (or other receiver) completes the liquidation of the property and business of the foreign bank in the State of Texas, the Commissioner is required to transfer any remaining assets to the foreign bank or to the liquidators of the foreign bank's offices in other states if such proceedings were pending in other states in accordance with the applicable court order.

In addition to being subject to Texas banking laws and regulations, the Texas Agency is also subject to federal regulation primarily but not limited to the International Banking Act of 1978, as amended (the "**IBA**"), and the amendments to the IBA made pursuant to the Foreign Bank Supervision Enhancement Act of 1991 ("**FBSEA**"), and to examination by the Board of Governors of the Federal Reserve Board. Under the IBA, as amended by FBSEA, all United States branches and agencies of foreign banks, such as the Texas Agency, are subject to reporting and examination requirements similar to those imposed on domestic banks that are owned or controlled by United States bank holding companies.

Among other things, FBSEA provides that a state-licensed branch or agency of a foreign bank may not engage in any type of activity that is not permissible for a federally licensed branch or agency of a foreign bank unless the Federal Reserve Board has determined that such activity is consistent with sound banking practice. A state branch or agency must also comply with the same single borrower lending limits applicable to national banks. These limits are based on the capital of the entire foreign bank. In addition, FBSEA authorizes the Federal Reserve Board to halt the activities of a United States branch or agency of a foreign bank if it finds that the foreign bank is not subject to comprehensive supervision on a consolidated basis in its home country or there is reasonable cause to believe that such foreign bank, or an affiliate, has violated the law or engaged in unsafe banking practice in the United States, and as a result, continued operation of the branch or agency would be inconsistent with the public interest and purposes of the banking laws.

THE BANK

Overview

We are a leading multi-purpose bank with limited liability organized under Mexican law. Likewise, we are the main subsidiary of a holding company called Grupo Financiero BBVA México, S.A. de C.V., authorized to establish and operate as a subsidiary financial group of BBVA Group, a global financial group that controls and owns the majority of GFBM's share capital. As of December 31, 2022, the bank represented 89.17% of GFBM's total assets and 90.21% of GFBM's net income for the year.

We are present in all of the 32 states of Mexico, serving our clients through a vast branch network and alternative distribution channels such as ATMs, bank correspondents, POS terminals, internet and cellular telephony, among others. Additionally, we have specialized executives who provide differentiated and personalized service to individuals, corporations, small and mid-sized companies, and government entities.

We are primarily focused on distributing banking products and services efficiently. As of December 31, 2022, we distributed products and services in Mexico for all banking units through our branch network, consisting of a network of 1,732 branches strategically located throughout all 32 states of Mexico, in addition to a branch located in Houston, Texas, for a total of 1,733 branches.

As of December 31, 2022, we operated with 14,019 ATMs and 673,395 POS terminals, and products and services are also offered through mobile apps and internet banking.

During the last three years, since the outbreak of the COVID-19 pandemic and various global events, such as the conflict between Russia and Ukraine, world economic activity has registered gradual growth. In Mexico, GDP declined by 8.2% from the end of 2019 to the end of 2020. However, with the opening of economically essential activities and the boost in the availability of vaccines at the national level in 2021, GDP grew 4.9% YoY, and, during 2022, GDP grew 3.1% YoY, according to the INEGI for the seasonally adjusted GDP series). However, the Bank has maintained its focus on the growth and development of the country through the granting of credit, which is reflected in the balance of the Bank's current portfolio as of December 31, 2022, which was Ps.1,492,329 million. The current portfolio balance grew by 6.6% in 2021 with respect to 2020. The evolution of the Bank's current portfolio has been accompanied by a non-performing loan ratio of 1.6% as of December 31, 2022, 1.7% as of December 31, 2021, and 3.0% as of December 31, 2020.

In terms of portfolio composition, with respect to Stage 1 and Stage 2 loans, as of December 31, 2022, the total balance of our performing commercial loan portfolio, which includes loans to companies, as well as to financial and government entities, represented 55.7% of our total loan portfolio, while the total balance of our consumer loan portfolio represented 23.9% of our total loan portfolio and the mortgage portfolio represented the remaining 20.4% of our total loan portfolio. For information on the different loan stages reflected in our 2022 financial information as a result of new accounting standards we have applied beginning on January 1, 2022, see "Selected Statistical Information—Loan Portfolio—Past Due Loan Portfolio" and Note 10 to our 2022 Financial Statements included elsewhere in this Offering Memorandum.

The Bank's net income was Ps.76,530 million for the year ended December 31, 2022, mainly driven by an environment of high interest rates, higher commissions related to the volume of transactions, as well as our focus on not increasing expenses. For the year ended December 31, 2021, our net income increased by 66.6%, as compared to the prior year, and for the year ended December 31, 2020, our net income decreased by 26.6% as compared to the prior year.

The Bank forms part of a financial group that is innovating to address new market trends and focused on catering to the needs of our customers, aimed at maintaining the Bank as a leader in innovation, and as a benchmark institution. Our main priority is our customers, offering the best service and generating the best experience. Our business model is based on customer segmentation, with personalized and specialized attention that allows us to offer products and services adapted to their needs. We offer our products and services through the following business units:

- **Retail Network:** The Retail Network business unit manages the entire branch network, which offers services and serves all individual customer segments from ultra-high net worth, private, wealth and personal, to the banking and express segments. Micro businesses and small companies are also served by this unit.

The Retail Network has been an important pillar for the redesign of the structure of our branches, adding larger self-service spaces to improve the customer experience by improving the flow within the branches and adding intelligent ATMs are able to grant credit.

- **Business and Government Banking:** With the aim of increasing cross-selling opportunities, the level of loyalty and improving the experience, the Business and Government Banking business unit offers specialized services and attention to the following customer segments:
 - *Business Entities:* comprises savings, credit, cash management and collection solutions. Through the BBVA Empresas app, customers can manage and administer their businesses from their cell phones, as well as take advantage of a wide variety of services and digital offers. During 2022, we formed an alliance with the National Agricultural Council (*Consejo Nacional Agropecuario*), with which our presence in this sector was strengthened.
 - *Home Developers:* provides credit to developers for construction purposes.
 - *Consumer Financing:* created as a specialized customer segment to exclusively meet the various requirements of the automotive industry, including loans for the distribution and acquisition of vehicles. This segment also comprises part of the Corporate and Investment Banking segment, since it provides services to meet the financial needs of automobile dealers. During 2022, this segment recovered market share and, improved profitability and proximity to our customers.
 - *Government Entities:* offers specialized and personalized service to meet the needs of the Mexican federal government, the states and municipalities of Mexico and other government agencies. The wide range of products offered by this segment includes paycheck services for government employees and checking accounts, as well as tax collection and payment services for states and municipalities through products such as “*Multipagos*” and “*CIE en línea*.” During 2022, we created a specialized platform targeted at municipalities to consolidate the presence of this segment at the national level.
 - *BBVA Spark:* is a BBVA Group initiative to help high-growth companies (start-up, scale-up, unicorn, growth, etc.) with the agility and flexibility they need to achieve success. With bankers exclusively devoted to this segment, it is capable of offering short response times to meet financing needs and has specifically adapted risk processes.
- **Corporate and Investment Banking:** The Corporate and Investment Banking unit offers credit products and services to corporate and institutional clients, mergers and acquisitions services, market operations (equities and fixed income), cash management, online banking, and investment products. The bankers in this unit strive to ensure that clients receive the best service tailored to their needs. Some examples of products offered through this unit are: (i) “BBVA Net Cash,” a global electronic banking solution that allows efficient and secure banking operations through a secure and easy-to-use platform and (ii) “BBVA Trader Mx,” a platform that allows investors to carry out their own commercial operations online and in real time, and also offers market information, analysis, news and technical tools, which can be customized, to help clients in the financial decision making.

Corporate and Investment Banking also includes our global markets unit and, in association with Casa de Bolsa BBVA México, S.A. de C.V., Grupo Financiero BBVA México, offers more sophisticated products and services for individuals and corporations, such as placements and issues of debt securities, capital and structured financing, among others. The Bank has led the SHCP and *Banco de México*’s classification of market makers since 2012.

As part of the Bank’s overall strategy, during 2022, this unit advised and accompanied clients in the transition to sustainability, allocating Ps.117,405 million for projects with an impact on the environment and Ps.43,573 million for projects with a social impact.

The business units are accompanied by a structure of support to promote the consistent performance of our business, while offering integral management that promotes the creation of synergies for continuous growth.

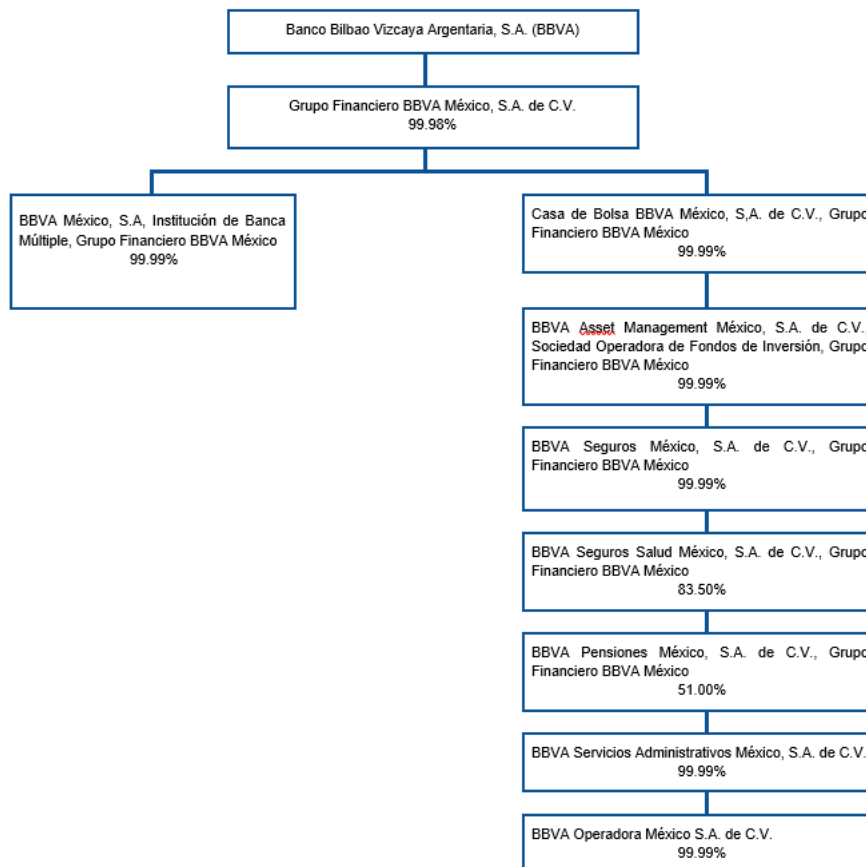
Organizational Structure

We are the principal subsidiary of GFBM, a holding company authorized under Mexican law to establish and operate a financial group.

In addition to our own products and services, we distribute and earn fee income and commissions from a wide range of financial and related products and services in Mexico for GFBM and other affiliates that are not our subsidiaries, including:

- bank insurance products on behalf of BBVA Seguros México, S.A. de C.V., Grupo Financiero BBVA México;
- mutual funds on behalf of BBVA Asset Management México, S.A. de C.V., Sociedad Operadora de Fondos de Inversión, Grupo Financiero BBVA México;
- pension fund management on behalf of BBVA Pensiones México, S.A. de C.V., Grupo Financiero BBVA México; and
- health insurance products on behalf of BBVA Seguros Salud México, S.A. de C.V., Grupo Financiero BBVA México.

The following chart presents our current holding organizational structure and that of GFBM, including principal subsidiaries and affiliates, as well as respective ownership interests as of the date of this Offering Memorandum:⁽¹⁾



(1) See our 2022 Financial Statements included elsewhere herein for a complete list of our subsidiaries.

Our History

General

The Bank was incorporated under the name “El Nuevo Mundo, S.A.” on October 8, 1945 in Mexico City. The Bank’s name changed in 1951 to “Industria y Crédito, S.A.” and then to “Financiera Bancomer, S.A.” in 1957.

In 1977, the Banco de Comercio System merged with Financiera México, S.A., as the merging company. As a result, Financiera México, S.A. changed its name to “Bancomer, S.A.”

Bancomer, like most other Mexican commercial banks, was nationalized in 1982. At the end of the 1980s, a series of measures were implemented to deregulate the Mexican financial system. This process of deregulation resulted in the re-privatization of commercial banks, including Bancomer, S.A.

As part of the subsequent privatization process, in 1991, a group of Mexican investors consisting of the major shareholders of Valores Monterrey Aetna, S.A. de C.V. acquired 56% of the outstanding capital stock of Bancomer, S.A. GFBM was incorporated in 1991 to acquire and hold a controlling interest in Bancomer and other financial institutions. GFBM subsequently increased its ownership of Bancomer through acquisitions and, in 1993, the Mexican government exchanged its remaining stake in Bancomer for shares of GFBM’s capital stock, which gave GFBM control of nearly 100% of Bancomer’s outstanding capital.

In July 2000, BBVA Spain acquired control of GFBM and, as a result, changed its name to Grupo Financiero BBVA Bancomer, S.A. de C.V. In August 2000, as part of this transaction, Grupo Financiero BBV-Probursa, S.A. de C.V. (BBV-Probursa), owner of a majority interest in another commercial bank, BBV-México (Banco Bilbao Vizcaya-México, S.A., Institución de Banca Múltiple, Grupo Financiero BBV-Probursa), merged with GFBM as the merging entity.

In August 2000, the merger of GFBM and BBV-Probursa took effect.

On September 15, 2000, the merger of the Bank, as the merging party, was agreed upon and continued with Banca Promex, S.A., Institución de Banca Múltiple, which was extinguished, which took effect on October 6, 2000.

In November 2000, in the extraordinary general meeting of shareholders of the Bank and BBV México, S.A., their respective spin-off and merger agreements were approved, and these agreements took effect in December 2000. As a result, both credit institutions continued forming part of the BBVA Group, with different but complementary purposes. Subsequently, in 2001, their respective shareholders approved the name change of Bancomer, S.A. BBVA Bancomer, S.A., Institución de Banca Múltiple, Grupo Financiero BBVA Bancomer, and BBV-México, S.A. to BBVA Bancomer Servicios, S.A., Multiple Banking Institution, BBVA Bancomer Financial Group.

The extraordinary general meeting of shareholders of the Bank that was held on October 3, 2001 approved the transformation of the Bank into a multiple banking institution subsidiary of GFBM, carrying out the corresponding modifications to its bylaws, as well as to reflect the reforms to the Credit Institutions Law, published in the Federal Official Gazette on June 4, 2001. The transformation was authorized by the SHCP on May 30, 2003. On May 9, 2002, GFBM obtained authorization to incorporate and operate as a subsidiary holding company of BBVA International Investment Corporation (BBVAIIC), through an indirect investment of 51% in its share capital. At that time, BBVAIIC, in turn, was wholly owned by BBVA Spain. The transformation of the Bank was formalized when these changes were registered in the Public Registry of Property and Commerce of the Federal District in 2003.

In 2009, after obtaining the corresponding authorizations, BBVA Spain increased its direct participation in the capital stock of GFBM to 99.98%.

In August 2009, after having obtained the necessary authorizations, the merger of the Bank as a merging company with BBVA Bancomer Servicios, S.A. was completed. As a result of this merger, the Bank now carries out the commercial activities of BBVA Bancomer Servicios, S.A., including fiduciary and ATM services.

On April 24, 2019, the global unification of the brand was reported in all the geographies in which the BBVA Group operates. As a result, the brand changed from “BBVA Bancomer” to “BBVA” in Mexico. The announcement to the public was made on June 10, 2019, publicizing the unique brand and the new logo with the aim of continuing to advance in transforming and globalizing the brand by leveraging the new digital era. The “BBVA” brand is owned by BBVA Spain and is used by the Bank under a license agreement entered into by both entities.

As part of the unified identity of the BBVA Group of which the GFBM Group is a part, on January 24 and 27, 2020, applications for authorization to modify the corporate name of GFBM and the Bank, as well as other

subsidiaries of GFBM, were filed with the SHCP and the CNBV, respectively. On September 4, 2020, the CNBV authorized the modification of the corporate name of the Bank, as well as other subsidiaries of GFBM. Also, on March 19, 2021, the SHCP approved the modification of the corporate name of GFBM.

On September 15, 2020, the Bank issued its unsecured 1.875% Senior Notes due 2025 in the international market in an aggregate principal amount of U.S.\$500 million, which constitutes the second issuance under the Program.

On January 22, 2021, the CNBV revoked our authorization to invest in the capital stock of Financiera Ayudamos, S.A. de C.V., SOFOM, E.R. (“**Financiera Ayudamos**”), pursuant to article 89 of the Mexican Banking Law (*Ley de Instituciones de Crédito*), as a result of the dissolution of Financiera Ayudamos, which was approved at the extraordinary general meeting of shareholders of Financiera Ayudamos held on November 1, 2019. The dissolution took effect on December 3, 2019, with its registration in the Public Registry of Commerce of Mexico City. The extraordinary general meeting of shareholders of Financiera Ayudamos, which must approve the final balance sheet and the liquidation of the company, is expected to take place during 2023.

On February 26, 2021, the extraordinary general meeting of shareholders of the Bank approved the issuance of subordinated equity-linked notes up to an amount of U.S.\$3,000 million. These subordinated equity-linked notes cannot be converted into shares and may be offered in the national and foreign markets.

The financial entities that make up the GFBM Group changed their corporate names as of September 20, 2021. In the case of the Bank, GFBM’s main subsidiary, the new name is *BBVA México, S.A., Institución de Banca Múltiple, Grupo Financiero BBVA México*, which replaced the previous name of *BBVA Bancomer, S.A., Institución de Banca Múltiple, Grupo Financiero BBVA Bancomer*.

Strategy and Strength

In line with our strategic priorities, we seek to be pioneers in the service and products we offer our customers by providing a comprehensive and specialized support service to individuals and companies, and by offering advice that allows them to take advantage of the best financial opportunities. To this end, it is of utmost importance to us to be at the forefront and to anticipate the development of products and services that reflect the new trends in the financial market and our clients’ service expectations.

At the Bank, we identify with our purpose and values. Our values are at the core of our strategy, which we define as: (i) *The Client is First*, making the client’s experience and needs our top priority, (ii) *We Think Big*, helping our clients meet their goals by being more than a bank, by being an engine of opportunities, and (iii) *We Are One Team*, encouraging the active participation of everyone at the Bank, all working towards the same common objectives. These values guide us towards the achievement of our purpose “To make the opportunities of this new era available to all.”

In 2020, our strategic priorities were updated under a redefinition that allows us to face the new needs and capabilities of both customers and the market itself. In 2021, as a consequence of the acceleration of some trends, such as digitalization or the commitment to a more sustainable and inclusive development, we have strengthened our strategy to anticipate these trends which has allowed us to advance in the execution of the six strategic priorities. Our strategic priorities are defined under the following three pillars:

- What represents us:
 - Improving our clients’ financial health
 - Helping our clients transition towards a sustainable future
- Leverage our existing assets to create distinctive performance:
 - Reaching more clients
 - Driving operational excellence
- Our utilization of boosters to help us achieve our main goals:
 - the best and most engaged team
 - data and technology

Finally, the BBVA Group consolidates its commitment to the transition to a more sustainable future in 2022, committed to one of its main strategic priorities, “*Helping our clients transition towards a sustainable future.*” As an example of this, in 2022, we tripled our objectives to €300,000 million in green financing, sustainable infrastructure, social entrepreneurship and financial inclusion.

The Bank, as a material subsidiary of the BBVA Group, is a participant and leader of this commitment to a more environmentally responsible world. In line with the endorsement of the Mexican agenda for a sustainable recovery, the Bank will continue to work together with its clients to strengthen its green and inclusive offer for the country. In 2021, efforts were made, which will continue in 2022, to create guidelines and criteria that contribute to the creation of products for inclusive growth.

In addition, in the first half of 2021, we managed to be neutral in its direct carbon emissions, by offsetting the environmental footprint with CO2 mitigation projects, which also generate a positive impact on the local communities where they are developed. These actions, among others, consolidate the Bank in 2021 as one of the leading banks in the field of sustainability.

Digital Strategy

As a result of our continuous investment in innovations and development of new products and services, we continue to show growth in the number of customers that use digital channels, reaching a total of 18.9 million mobile customers as of December 31, 2022, equivalent to an increase of 23.5% in an annual comparison. As of December 31, 2022, mobile customers represent 67.5% of our total customer base.

Financial transactions carried out by clients from January to December of 2022 totaled more than 2,935 million, which represented an increase of 25.9% compared to the same period of the previous year. In this sense, the continuous transformation in our digital strategy can be seen in the number of transactions carried out in our mobile applications and on the website, which represented 60% of the total in 2022 (compared to 54% in 2021) with an annual growth of 39.9%. Our digital strategy and transformation allow the customers to have easy-to-access services and products with the highest standards of safety and security, complying with the most robust and sophisticated standards in the industry.

In addition, we keep promoting the use of digital channels among our customer base, which is reflected in the percentage of digital sales (measured in units), which during 2022 reached 74.8% of the total sales made in the Bank.

Sustainable Finance

We incorporate sustainability in our daily activities, and it is part of our management both in our relationship with customers and in our internal processes. We are aware of our outstanding and relevant role as a bank in the transition towards a more sustainable world through financial services and products. We seek to accompany our retail, business, corporate and institutional clients in adopting more sustainable habits that help reduce their emissions, using data-based tools and solutions that help them control their consumption and emissions. To this end, we are continuously working on providing advisory services as well as in the development and innovation of a wide range of sustainable investment and financial products.

The range of credit products handled by the Bank has significant benefits for customers, such as preferential rates aimed at making these products more attractive in the market:

- **To Individuals:** financing the acquisition of hybrid and electric cars, financing of solar panels and mortgages, as well as insurance products starting with hybrid and electric cars. As of December 31, 2022, we granted Ps.15,801 million in these products.
- **To Companies:** green financing for companies, letters of credit, leasing, and green bonds, among others. We provided financing in these products in the amount of Ps.79,469 million to companies during 2022.
- **In the Debt Markets:** Intermediate in the issuance of green and social bonds in the Mexican market. Beyond just promoting sustainable financing, at the Bank we promote a new model of sustainable banking through investment banking with the placement of green and social bonds in which we participated as an underwriter during 2022 for an amount of Ps.65,708 million.

Market Information

The following table provides comparative information with respect to the Bank and certain selected leading banks in Mexico as of December 31, 2022 (unless otherwise indicated). This comparison is for illustrative purposes only.

	The Bank⁽¹⁾	Citibanamex	Banorte	Santander	HSBC	Scotiabank
			(millions of Ps., except for percentages)			
Total loan portfolio	1,516,177	580,343	905,914	810,082	418,145	495,317
Total deposits portfolio	1,749,373	973,446	930,180	942,777	541,311	535,220
Market share (total loans)	24.30%	9.30%	14.52%	12.98%	6.70%	7.94%
Total assets	2,753,601	1,484,293	1,549,874	1,845,039	780,248	751,502
Total loan portfolio / total assets	55.06%	39.10%	58.45%	43.91%	53.59%	65.91%
Total loan portfolio / total deposits funding	86.67%	59.62%	97.39%	85.93%	77.25%	92.54%
Total stockholders' equity	300,033	191,250	144,673	166,235	71,884	75,294
Net income	76,530	20,433	34,549	26,469	10,010	11,117
Return on assets (ROA) ⁽²⁾	2.94%	1.40%	2.23%	1.45%	1.32%	1.57%
Return on equity (ROE) ⁽³⁾	26.27%	10.92%	24.65%	16.43%	14.46%	15.10%
Cost of funding ⁽⁴⁾	2.81%	3.19%	3.52%	4.22%	4.69%	7.02%
Delinquency ratio ⁽⁵⁾	1.57%	2.65%	1.01%	1.88%	3.05%	3.74%
Operating efficiency ratio ⁽⁶⁾	32.78%	66.82%	41.02%	47.34%	60.04%	52.71%
Branches	1,733	1,267	1,154	1,037	878	450

(1) Data for the Bank is derived from the Bank's 2022 Financial Statements. Data for other financial institutions is derived from information reported by the CNBV.

(2) ROA is equal to net income for the year divided by average assets for the year.

(3) ROE is equal to net income for the year divided by average equity for the year.

(4) Source: *Banco de México*.

(5) Delinquency ratio is equal to total non-performing loans divided by total loans.

(6) Operating efficiency is equal to (x) administrative and promotional expenses divided by (y) net interest income plus net commissions plus other operating income (expenses) plus financial intermediation income for the year.

Business Units and Financial Performance

We are a bank in constant transformation, aiming to evolve every day in order to improve customer experience, the offer of traditional products and to innovate through the digital offering of products and services. One of the main elements of our business model is customer segmentation, which allows us to provide specialized attention to each of our customers through our business units, which are dedicated to developing products and services focused on our customers' specific needs. Our business units benefit from our support units, which provide support to all of our networks, striving to generate a better experience for our customers, with the objective of maintaining adequate business recurrence and integral management, as well as achieving synergies that enable continuous growth.

Retail Network

Our Retail Network business unit manages the entire branch network, offering services to different individual customer segments, ranging from ultra-high net worth, private, wealth and personal to the banking and express segments; micro and small businesses attended in this segment.

The structure of our branches includes larger self-service spaces to improve the experience for our customers by making the operation of the branch more efficient, encouraging the use of self-service facilities, and adding more intelligent ATMs through which our clients can obtain consumer loans or make deposits or payments in cash.

We have also made significant investments to develop alternative digital channels to increase sales by cross-selling opportunities with our customers while increasing customer loyalty. For example, in relation to the migration of payroll accounts, as of December 31, 2022, we had 516,061 new payroll accounts.

In addition, we offer loans and deposits to individuals, small and micro companies, through the Retail Network business unit and through the digital channels developed to serve this segment. Depending on the special requirements of each customer segment, we offer a wide range of products and services, including consumer loans, car loans, savings products (including demand deposits), time deposits, investment funds and life, car, housing and natural disasters insurance.

During 2022 we continue to transform the customer service strategy, aim to consolidate long-term relationships by offering specialized solutions. In this sense, the new service model for SMEs has been a key differentiator and has recorded positive results by attracting new customers. Additionally, we continue to promote our digital channels in order to strengthen and differentiate our product offer with innovative payment solutions (CoDi, electronic payment, e-commerce and POS).

The Business Development unit, which supports our Retail Network, is responsible for developing new businesses, technologies, and digital channel strategies, aiming to guarantee our leadership position in the Mexican market. In this regard, there have been significant investments to develop alternative digital channels that support sales within the branches with the main objective of increasing opportunities to cross-sell to customers, and, at the same time, increasing customer loyalty.

The Bank has also launched various mobile applications to encourage the use of digital financial services in rural areas. As of December 31, 2022, there were 18.9 million customers that used our mobile application, there has been a 23.5% annual increase.

Business and Government Banking

We offer services in the Business and Government Banking business unit through specialized branches. Clients in this segment are also an important source of deposits since they mainly use savings and cash management products. We offer a wide range of products designed to meet customer requirements for collection and cash management solutions.

In 2020, we launched the BBVA Empresas App, which is aimed from small and medium-sized companies to large corporations and allows customers to manage and administer their business from their cell phone, while offering, through such platform, a wide variety of services and digital offers.

This unit also offers services to clients in certain niche segments to increase cross-selling opportunities and customer loyalty:

- *Home Developers*: provides credits to developers for construction purposes.
- *Consumer Financing*: This segment was created exclusively to satisfy the various requirements of the automotive industry, including loans for the distribution and acquisition of vehicles, and is also part of the Corporate Banking and Investment business unit, as it provides services to meet the financial needs of car dealerships.
- *Government Entities*: This segment has specialized branches and personalized services to meet the needs of the Mexican federal government, the states and municipalities of Mexico, and other government agencies. The wide range of products for this segment includes paycheck services for government employees, checking accounts and tax collection services for states and municipalities. We also offer products such as “*Multipagos*” and “*CIE Online*” for tax collection.

Corporate and Investment Banking

Through the Corporate and Investment Banking business unit, we offer credit products and services to corporate and institutional clients, mergers and acquisitions services, market operations (equity and fixed income), cash management, online banking, and investment products. In this business unit, we have a client base of more than 10 thousand companies located in Mexico and in other countries. The business unit strives to ensure that customers receive the best possible service by developing new products tailored to their needs. Some examples of products that we offer to customers through this business unit are:

- “*BBVA Net Cash*,” a global electronic banking solution that allows corporations and government organizations to efficiently and securely execute their banking transactions through one platform that is remotely accessible at any time; and
- “*BBVA Trader Mx*” a platform that allows investors to carry out their own online trading transactions in real time.

This business unit also offers market information, analysis, news and technical tools, which can be customized to help our clients make financial decisions.

The Corporate and Investment Banking business unit also includes our global markets unit and, in association with Casa de Bolsa BBVA México, S.A. de C.V., Grupo Financiero BBVA México, offers more sophisticated products and services to both individuals and companies, such as placements and issues of debt and equity securities and structured financing, among others. As market makers, we play an active role in the market for fixed-rate government securities and primary auction bids for these securities. The Bank has led the SHCP and *Banco de México*'s classification of market makers since 2012.

Financial Performance of the Business Units

Retail Network

General

Our Retail Network is our major operating business unit and includes sub-units for providing banking products and services and originating credit and debit cards, residential mortgage loans, consumer loans, payroll loans, and loans to small businesses through our vast network of retail branches and ATMs, as well as alternative distribution channels. As of December 31, 2022, the aggregate balance of our Retail Network lending portfolio was composed of 40% mortgages, 29% consumer loans, 19% credit cards and 13% to SMEs.

As of December 31, 2022, we had 1,733 branches and 14,019 ATMs located throughout Mexico, as well as distribution channels outside of these networks, including 673,395 POS terminals, our internet portal, and mobile applications. As of December 31, 2022, our Retail Network unit accounted for 50.6% of the balance of our total loan portfolio, and 67.4% of the balance of our demand and time deposits.

We have divided the customer base served by this business unit into the following classifications: (i) for individuals based on deposit size: ultra-high net worth, high net worth, upper affluent, affluent, upper mass and lower mass; and (ii) for small businesses: including micro and small enterprises.

This business unit focuses on increasing the value of the customer base and increasing cross-selling. We believe that payroll loans are a key product with considerable potential to keep increasing customer loyalty and promoting cross-selling while offering our customers additional benefits. We are also focused on delivering banking products and services to unbanked and underserved segments of the Mexican population, including through the enrollment of our customers in the CoDi@ platform. This platform was designed by *Banco de México* and launched in September 2019, with the goal of simplifying payments by using electronic transfers through smartphones.

Our Retail Network business unit also emphasizes increasing productivity by reducing branch traffic through the installation of electronic payment systems at our branches and offering mobile and internet banking solutions to our customers. This is part of the new customer service model that has been implemented throughout our entire branch network.

Our business model focuses on customer segmentation and specialized products and services to customers within each customer segment. By following the main strategic priority of the BBVA Group, "Customer comes first" we strive to offer customers the best experience during any interaction they have with the Bank.

The customer attention model in our Retail Network business unit is structured as follows:

- *Ultra-high net worth:* We cater to high net-worth individuals by offering differentiated products and services aimed to satisfy their specific needs.
- *High net worth:* We provide personalized financial and investment services to these customers with our relationship officers, who are familiar with the customer's individual needs and who can recommend and provide access to specialized products and services.
- *Upper affluent:* We cater to this customer segment through our upper affluent officers, who provide specialized products and tailored solutions for customers' financial needs, rather than offering generic products and services.
- *Affluent:* We created this customer segment in 2011 to offer certain customers specialized attention and tailor-made products. These customers have specialized account executives within our retail branches.
- *Upper mass:* This customer segment is our largest retail customer segment based on the number of customers, with more than 14.9 million customers as of December 31, 2022. We provide products and

services to individuals in the upper mass segment through commercial executives and our retail distribution network throughout Mexico.

- *Lower mass:* This customer segment is dedicated to serving the low-income population without adequate access to financial services. We offer low-cost transactional accounts that allow customers to use our banking services. The Bank's correspondent network is useful for these customers, and these partnerships have enabled us to expand our network and hours of operation.
- *Micro and small businesses:* We also provide services to small businesses through our retail branches. The maximum amount of credit extended to these customers is usually limited to Ps.15 million, all of which is generally secured. As of December 31, 2022, we had 748,064 customers in this segment.

Credit Activity

Credit Cards

We are one of the leading bank issuers of credit cards in Mexico and we maintain a strong relationship with Visa and MasterCard. Revenues from credit card operations are derived primarily from customer transactions. We originated more than 1.9 million credit cards during the year ended December 31, 2022, and more than 1.3 million credit cards in the year ended December 31, 2021. As of December 31, 2022, total credit card loans outstanding were Ps.144,625 million, while aggregate credit card billing for the year ended December 31, 2022 totaled Ps.554,049 million.

We offer a wide array of different credit cards depending on the customer's monthly income and needs. Our credit card offerings include "BBVA Azul," "BBVA Oro," "BBVA Platinum" and "BBVA Infinite," which are accepted by merchants in Mexico and abroad. We also offer "Vida BBVA," a customer loyalty program that uses a credit card with an embedded intelligent microchip running proprietary software that was developed to offer real-time rewards to customers and marketing and merchandising flexibility to merchants.

Our risk analysis platform allows us to monitor and differentiate the behavior of each customer to better identify customers with debt problems early on, and offer them a support plan through preferential rates. This support program also helps us strengthen our credit card portfolio by offering better interest rates to credit card customers with higher credit scores, improving the quality of our service and the loyalty of our clients.

Consumer Loans

The consumer loan portfolio consists largely of unsecured personal and payroll loans, used mainly for the purchase of consumer goods. Consumer lending, excluding credit card and auto loans, reached Ps.164,383 million as of December 31, 2022.

In the breakdown, payroll loans are one of the main products to keep promoting cross-selling inside the bank, this can be reflected in the new loans that are Ps.102,031 million. Personal loans amounted to Ps.41,937 million.

Digital innovation has also allowed us to increase sales through multi-channel distribution, by permitting us to offer products through the internet, mobile applications and ATMs, in addition to our traditional distribution method of physical branches. For example, for the year ended December 31, 2022, 74.8% of total sales we performed were executed through a digital channel.

Residential Mortgages

We provide residential mortgages through our Retail Network business unit. As of December 31, 2022, we maintained our leadership position in the residential mortgage market, holding a 25.6% market share according to data published by the CNBV. During the year ended December 31, 2022, we granted 36,824 new mortgage loans with a principal amount of Ps.65,575 million. As of December 31, 2022, our mortgage loan portfolio totaled Ps.303,998 million.

Deposits

Our deposit base has traditionally been one of our strengths and represents an area of strategic importance. Our strategy is aimed at increasing our deposit base while maintaining a competitive funding cost. We support this strategy through marketing campaigns and seek to increase both the balance of existing savings accounts and the number of new savings accounts opened.

As of December 31, 2022, the balance of demand deposits in this business unit was Ps.763,356 million, which represented 66.8% of our total demand deposits. This level of demand deposits reduces our cost of funding, which, in turn, results in a favorable performance of our net interest income. As of December 31, 2022, balances in time deposits in this business unit were Ps.168,137 million, which represented 70.1% of our total time deposits, and balances of mutual funds were Ps.494,520 million.

Business and Government Banking

We offer services to the Business and Government Banking business unit through a specialized network. Clients of this business unit are also an important source of deposits since they mainly use savings and cash management products. We offer a wide range of products designed specially to meet customer requirements for collections and cash management solutions.

In 2020, we launched the *BBVA Empresas* mobile app, which is targeted at small and medium-sized companies to large corporations. This app allows customers to manage and administer their business from their cell phones, and also provides us with an additional means to offer a wide range of additional services to these customers.

This business unit also offers services to clients in certain niche segments to increase cross-selling opportunities and customer loyalty:

- *Home Developers*: provides credit to developers for construction purposes.
- *Consumer Financing*: This unit was created exclusively to satisfy the various needs of the automotive industry, including loans for the distribution and acquisition of vehicles. Through this unit, we cater the whole value chain from the financial needs of car dealerships to the final user.
- *Government Entities*: Cater the needs of the Mexican federal government, the Mexican states and municipalities and other government agencies. The wide range of products for this segment includes from a checking account for government employees up to tax collection services for Mexican states and municipalities through our systems called “*Multipagos*” and “*CIE Online*.”

Business Performance of Business and Government Banking

Business and Government Banking

We offer products and services tailored to the specific needs of the Business and Government Banking business unit. The middle-market business banking loan portfolio reached Ps.612,587 million as of December 31, 2022. The government banking loan portfolio reached Ps.185,736 million as of December 31, 2022.

Our middle-market business customers are also an important source of deposits, as they mostly use cash management and savings products. We offer a wide array of products designed to meet these customers’ needs for cash management and collection solutions. Some of the unit’s more popular products are: (i) *Tesorería Integral Bancaria*, which provides easier and faster operation of our customers’ financial transactions through the installation of high-technology software through our website, and (ii) *Multipagos*, which is a software application that optimizes the collection process.

Consumer Financing

In 2013, the consumer financing segment was created to offer financial services, including credit for the distribution and purchasing of vehicles. This is a specialized segment that works in tandem with the middle-market banking segment and allows us to service automobile dealers.

The automobile loan portfolio reached Ps.46,329 million as of December 31, 2022, as the result of the economic environment in 2022 and its impact on the automotive industry. During the year ended December 31, 2022, we granted 104,289 automobile loans, as compared to 84,044 automobile loans during 2021.

Home Developers

This segment caters to home developers who need bridge loans for construction. The home developers loan portfolio totaled Ps.23,159 million as of December 31, 2022.

Government Entities

The Business and Government Banking business unit serves Mexican federal agencies, states, and municipalities. We have enhanced our relationships with our government entity customers, which has resulted in us becoming one of the market leaders in this segment. We offer several specialized products to our government customers, such as payroll for government employees and checking accounts, and tax collection solutions for states and municipalities. In addition, we offer “*Multipagos*” and “*CIE en línea*” for tax collections.

The business and government loan portfolio reached Ps.185,736 million as of December 31, 2022.

Corporate and Investment Banking

We offer credit products and services to corporate and institutional clients, mergers and acquisitions services, market operations (equities and fixed income), cash management, online banking, and investment products.

This business unit strives to ensure that customers receive the best possible service by developing new products tailored to their needs. Some examples of products that we offer to customers in this segment are: (i) *BBVA Net Cash*, a global electronic banking solution that allows entities, companies, and government organizations to carry out their banking operations efficiently and securely through a platform that is remotely accessible at any time, and (ii) *BBVA Mexico Web Trader*, a platform that allows investors to carry out their own trading operations online in real time; offering also financial market information, analysis, news and technical tools, which can be customized, to help our clients make financial decisions.

The Corporate and Investment Banking business unit also includes our global markets unit and, in association with Casa de Bolsa BBVA México, S.A. de C.V., Grupo Financiero BBVA México, offers more sophisticated products and services to both individuals and companies, such as placements and issues of debt and equity securities and structured financing, among others. As market makers, we play an active role in the market for fixed-rate government securities and primary auction bids for these securities. The Bank has led the SHCP and *Banco de México*'s classification of market makers since 2012.

Business Performance of Corporate and Investment Banking

The Corporate and Investment Banking business unit serves Mexico's major corporate and institutional customers through originating, distributing, and managing loans and providing money market and investment products and tailored financial solutions. In addition, this business unit provides financial advice and structuring and assures, originates, and syndicates complex financing structures including project finance, trade finance, and syndications.

As of December 31, 2022, our Corporate and Investment Banking business unit provided services to 21,631 customers located in Mexico, as well as international clients. As of December 31, 2022, our Corporate and Investment Banking loan portfolio was Ps.277,335 million.

This unit strives to better serve our customers through the development of new products tailored to their needs. Some of our new products include *BBVA Net Cash* and *BBVA Trader Mx*.

Business through Subsidiaries and Affiliates

The extraordinary general meeting of shareholders of Financiera Ayudamos held on November 1, 2019 approved the dissolution of Financiera Ayudamos, since as of September 2018, Financiera Ayudamos suspended granting credit to the public and began the orderly closure of operations and branches. The dissolution took effect on December 3, 2019. The financial statements of Financiera Ayudamos as of December 31, 2021 and 2020 and for the years then ended were not prepared on a going concern basis and therefore, such financial statements have been prepared in accordance with the applicable accounting rules, determining estimated values from the disposal or liquidation of all net assets. Until the corresponding liquidation procedures are completed with the CNBV, the Bank will continue to comply with the applicable rules relating to disposals to financial entities with multiple objectives (SOFOM regulations).

As of December 31, 2022 and 2021, Financiera Ayudamos' assets were Ps.115 million and Ps.109 million, respectively, and stockholders' equity was Ps.115 million and Ps.108 million, respectively. For the year ended December 31, 2022, Financiera Ayudamos' net income amounted to Ps.8 million and, as of December 31, 2021, Financiera Ayudamos' net loss amounted to Ps.4 million.

Competition

General

The Mexican financial sector is highly competitive. We face strong competition in all aspects of our business from other Mexican financial groups, commercial banks, insurance companies and securities-brokerage houses, as well as from non-Mexican banks and international financial intermediaries. In commercial banking, we compete with other large Mexican banks, many of which, like us, have been incorporated into a financial group and seek to offer a broad array of products and services to their customers. We also compete with certain non-Mexican banks based outside Mexico, for the business of the largest Mexican industrial groups, government entities and high net worth individuals, as well as for providing financings in U.S. dollars. Additionally, we compete with other banks that have recently obtained banking authorizations. In investment banking, we face competition principally from other major Mexican securities-brokerage houses, as well as from international investment banks.

Trends in associated markets are also shaping the competitive environment, such as entry by new players on digital platforms, including fintech companies, which have demonstrated high concentrations in payments, lending and enterprise financial management. In general, the Mexican banking industry has experienced increasing competition in recent years, partly due to the entry of new players. By the end of 2022, there were approximately 650 players in the fintech sector in Mexico. In addition, there has been a recent trend of investments by key banks updating their retail networks and growing their digital platforms and big data processing capabilities.

Commercial banks in Mexico have historically competed in the retail market with limited-purpose financial institutions, or *Sofoles*, which offered mortgage, consumer and commercial loans mainly for low- and middle-income individuals. Since the Mexican economic crisis in 2009, most *Sofoles* were affected by liquidity problems as a result of difficulties experienced in obtaining funding, and many have either disappeared or are in financial restructuring. Due to these restructurings, in July 2013, the CNBV declared the previous authorizations for *Sofoles* invalid in order to encourage these entities to move to another form of organization, such as multiple purpose financial entities or *Sofomes*. *Sofomes* compete in both the commercial and retail loan portfolios, mainly in the middle-market and SMEs portfolio, as well as in consumer finance.

As of December 31, 2022, the Mexican banking system was composed of 50 private-sector banks, of which 58.0% are principally Mexican-owned and 42.0% are foreign-owned. The Bank's largest competitors among the private-sector banks are Citibanamex, Santander, Banorte, HSBC and Scotiabank, which, together with the Bank, accounted for 73.2% of total assets of Mexican private sector banks as of December 31, 2022.

We believe that the Bank has competed more effectively due to several perceived advantages over many foreign banks and smaller Mexican banks. For example, the Bank continuously seeks to improve its products and services in order to address greater competition in recent years. The following table sets forth certain statistics relating to the Mexican commercial banking system as of December 31, 2022, except as otherwise indicated:

	As of December 31, 2022							
	Assets		Loans		Deposits ⁽¹⁾		Stockholders' Equity	
	Amount	Market Share	Amount	Market Share	Amount	Market Share	Amount	Market Share
Domestic private-sector banks	4,279,015	27.7%	2,254,206	29.5%	2,607,037	28.3%	485,437	28.5%
Foreign-owned banks ..	8,245,391	53.3%	3,984,713	52.2%	5,008,686	54.3%	902,247	52.9%
Private-sector total	12,524,406	81.0%	6,238,919	81.7%	7,615,723	82.6%	1,387,685	81.3%
Public-sector banks	2,524,419	16.3%	1,093,041	14.3%	1,326,102	14.4%	223,144	13.1%
Total banking system ..	15,048,825	97.3%	7,331,960	96.0%	8,941,824	97.0%	1,610,828	94.4%
Non-banking institutions*	416,235	2.7%	303,489	4.0%	279,292	3.0%	95,353	5.6%
Financial system total	15,465,060	100.0%	7,635,448	100.0%	9,221,116	100.0%	1,706,182	100.0%

* Source: CNBV, includes *Sofomes*, *Sociedades Financieras Populares* (SOFIPOs), Currency Exchange Centers, Credit Unions, General Bonded Warehouse as of December 31, 2022.

(1) Deposits include demand deposits, term deposits, bank bonds and interbank loans and loans from other entities. Updated as of December 2022.

Deposits

As of December 31, 2022, the Bank had deposits in an aggregate amount of Ps.1,749,373 million. Its 23.0% market share in deposits, including borrowings from domestic financial institutions, ranks first among commercial banks in Mexico according to data from the CNBV. As of December 31, 2022, Ps.1,367,045 million of its total deposits were demand deposits, representing a 27.8% market share, and Ps.247,631 million of its total deposits were time deposits, representing a 12.4% market share. As of December 31, 2022, the next two largest banks in terms of total deposits, Citibanamex and Santander, had deposits that amounted to Ps.973,446 million and Ps.942,777 million, respectively. The following table sets forth the market shares in terms of deposits for the six Mexican commercial banks with the largest market shares as of December 31 of each of the last three years:

	Bank Deposits		
	As of December 31,		
	2022	2021	2020
		(%)	
The Bank	23.0%	23.0%	21.5%
Citibanamex	12.8%	13.1%	13.7%
Santander.....	12.4%	12.9%	13.4%
Banorte.....	12.2%	11.8%	12.8%
HSBC.....	7.1%	7.6%	7.7%
Scotiabank.....	7.0%	7.0%	7.1%
Six main banks.....	74.5%	75.5%	76.3%

Source: CNBV (Quarterly Banking Report, annual consolidated financial statements). Market share includes commercial banks regulated by CNBV.

Loans

As of December 31, 2022, the Bank had the largest total loan portfolio among commercial banks in Mexico, with a total loan portfolio balance of Ps.1,511,077 million (excluding the portion of our loan portfolio that is measured at fair value, for comparability with other commercial banks). See Note 10 to our 2022 Financial Statements included elsewhere in this Offering Memorandum. Its total loan portfolio represented 24.3% of the commercial bank market for loans. As of December 31, 2022, Ps.835,556 million of its total loan portfolio balance consisted of commercial loans, representing a 22.0% market share; Ps.364,700 million consisted of consumer loans, representing a 30.0% market share; and Ps.310,821 million consisted of mortgage loans, representing a 25.5% market share. Regarding commercial loans, Ps.620,999 million consisted of corporate loans, representing a 20.9% market share. See Note 10 to our 2022 Financial Statements included elsewhere in this Offering Memorandum. The following table sets forth the market shares in terms of loans for the six private-sector banks with the largest market shares as of December 31 of each of the last three years.

	Bank Loans		
	As of December 31,		
	2022	2021	2020
		(%)	
The Bank	24.3%	23.6%	23.5%
Banorte	14.5%	14.6%	14.9%
Santander.....	13.0%	13.5%	13.3%
Citibanamex	9.3%	9.9%	10.6%
Scotiabank.....	7.9%	7.9%	7.8%
HSBC.....	6.7%	7.0%	6.9%
Six main banks.....	75.7%	76.6%	77.0%

Source: CNBV (Quarterly Banking Report, annual consolidated financial statements). Market share includes commercial banks regulated by CNBV.

Stockholders' Equity

As of December 31, 2022, the Bank had a market share of 21.6% in terms of stockholders' equity according to data from the CNBV. We maintain a strong solvency position, despite dividend payouts, increasing equity through recurrent income and organic capital generation.

The following table sets forth the level of stockholders' equity for the six largest commercial banks in Mexico (measured by stockholders' equity) as of December 31 of each of the last three years.

	Bank's Equity As of December 31,		
	2022	2021	2020
The Bank	300,033	282,668	242,234
Citibanamex	191,250	182,786	174,303
Santander	166,235	165,823	158,930
Banorte	144,673	144,631	135,044
HSBC	71,884	66,045	65,366
Scotiabank	75,294	67,350	55,321
Six main banks	949,369	909,303	831,197

Source: CNBV (Quarterly Banking Report, annual consolidated financial statements).
Market share includes commercial banks and the rest of the financial institutions regulated by CNBV.

Other Indicators

The Bank continues to maintain the lead in profitability among commercial Mexican banks and maintain a well-positioned and diversified loan portfolio. Based on publicly available information, as of December 31, 2022, our Total Net Capital ratio was 19.2%, as compared to 19.4% for Santander and 22.9% for Banorte.

The following chart provides information regarding us and selected leading banks in the region with respect to our capitalization levels.



Source: Information for Santander, Banorte, the Bank, Itaú Unibanco Holding S.A., Banco Bradesco S.A., Bancolombia S.A., Banco de Chile and Santander Chile Holding S.A. (“Santander Chile”) based on data as reported by each country’s regulator, unless otherwise noted. Information for figures for Santander, Banorte, HSBC, Scotiabank and the Bank sourced from the CNBV and Quarterly Reports as of December 31, 2022; for Itaú Unibanco Holding S.A. and Banco Bradesco S.A. sourced from 4Q Reports as of December 31, 2022; for Bancolombia S.A. sourced from 4Q Reports as of December 31, 2022; and for Banco de Chile and Santander Chile sourced from 4Q Reports as of December 31, 2022. Accordingly, this tabular comparison is for illustrative purposes only and we do not purport to assert that the above information is actually comparable.

Properties

We are domiciled in Mexico and our headquarters are located at Paseo de la Reforma No. 510, Colonia Juárez, Demarcación Territorial Cuauhtémoc, Mexico City, Mexico, C.P. 06600. As of December 31, 2022, the Bank owned 23% of its properties. The rest of the properties in which our operations are conducted were leased or granted in bailment. As of the date of this Offering Memorandum, all the personnel is installed in the three new buildings, the headquarters located in Paseo de la Reforma, the operations center located in Parques Polanco and the operations center of the financial group.

We also own a data processing center called the Centro de Procesamiento de Datos BBVA, which is 5,677 square meters and houses our back-up computer facilities.

The following table provides detail about our owned and leased properties as of December 31, 2022.

	Owned	Leased	Commodated ⁽¹⁾	Total	Square meters	Years Owned	Use
Branches Network.....	23%	75%	2%	1,787	1,072,461	—	Branches
Computer Center.....	1	—	—	1	5,677	—	Computer Center
Torre Reforma.....	1	—	—	1	191,521	7 years	Offices
Torre Polanco.....	1	—	—	1	159,069	7 years	Offices

(1) Property leased under gratuitous leases

In addition, our properties have the following environmental certifications:

Building	ISO1400:2015 certified building	LEED-certified building	Number of building workers
Torre BBVA.....	X	X	5,018
Parquest BBVA.....	X	X	4,105
Centro de Computo.....	X	—	538
Tecnoparque.....	X	—	548
Torre Murano.....	—	X	3
Torre Danos (Toreo).....	—	X	3
Total.....	4	4	10,215

Human Resources

The following table shows our full-time, permanent employees at the dates indicated:

	As of December 31,		
	2022	2021	2020
The Bank.....	41,212	38,095	33,314
Overseas branches and representative offices.....	25	25	24
Subsidiaries.....	—	—	—
Total.....	41,237	38,120	33,339

As of December 31, 2022, approximately 34.12% of our employees were unionized which represented 14,065 of employees and the remaining 65.88% were not unionized. All management positions (*empleados de confianza*) are held by non-union employees.

At the end of 2022, our workforce consisted of 41,212 employees, of which 52.18% were women and the remaining 47.82% were men.

The collective relationships of the Bank involve 34.13% of its workforce and a collective bargaining agreement has been concluded with the Sindicato Nacional BBVA Bancomer de Empleados de los Servicios de la Banca y Crédito y Actividades Relacionadas (SNAEBB), which is in force and duly deposited with the competent labor authority.

In March 2021 and September 2022, the negotiations on the salary review set forth on the Collective Bargaining Agreement were concluded, resulting in an aggregate salary increase of 6.0%, to be applied retroactively from January 1, 2021.

The relationship with the Bank's union representation is maintained in a framework of collaboration, communication and consultation, which supports the achievement of its objectives and the development of its employees.

The use of temporary employee hiring figures is carried out as part of our initial training strategy, pursuant to the applicable legal provisions; their number (3,700) and temporary nature do not negatively interfere with the Bank's operation.

We provide a training plan based for a continuous development of the employee, offering a wide range of training actions to reinforce their technical knowledge and allowing them to develop their current functions and prepare themselves for the future, and to strengthen essential leadership skills and other "soft skills."

We have a private retirement plan with a defined contribution that rewards the savings of personnel, and an insurance of a contributory life group, with coverage for death and total permanent disability. All our employees participate in variable compensation plans.

Legal Proceedings

Deposit Account and Electronic Transactions Cases

The Bank is a party to several litigations and other legal proceedings related to its normal course of business. The Bank's commercial activities take place in a heavily regulated sector and, due to the volume and variety of its business, the Bank commences or appears in a variety of types of legal proceedings against either private persons or authorities.

We have experienced a noticeable increase in the number of legal proceedings intended to reject or annul electronic transactions (i.e., wire transfers or purchases carried out using a Personal Identification Number). Although, we do not believe that these proceedings, individually or in the aggregate, will affect the Bank's operations, several legal precedents recently issued may complicate the Bank's defenses by favoring consumers in terms of the burden of proof in these types of proceedings, over financial institutions, such as the Bank, as defendants.

Other Litigation

There are no relevant ongoing legal, administrative or arbitral proceedings other than those that are part of the normal course of our business, including those related to liquidation or bankruptcy proceedings, in which we, our subsidiaries or shareholders, directors and senior officials, are or could be involved, which could have or has had a significant impact on the outcome of our operations.

There are no legal, administrative or arbitral proceedings with contingencies amounting to more than 10% of the total assets of the Bank. Notwithstanding the foregoing, as described under "Risk Factors—Risks Relating to Our Business—We are subject to litigation and other legal, administrative and regulatory proceedings," the Bank is subject and may be subject in the future to a series of investigations, procedures and legal or regulatory actions that, if resolved against the Bank, could have a significant adverse effect on the Bank's reputation, financial condition or results of operations. Currently, it is not possible to predict the outcome of these proceedings or if they will have a significant adverse effect on the Bank's reputation, financial condition or results of operations.

RISK MANAGEMENT

General

Our main risk exposures consist of credit, liquidity and Funding Risk, operational (including legal) and market risks.

Credit Risk is defined as the potential loss assumed by an entity due to non-compliance with its contractual obligations. Depending on the nature of the counterparties, which results in different management processes mainly due to their different granularity, they are classified as follows: (i) retail, which includes individuals, self-employed or small businesses, and (ii) wholesale, which includes corporates, developers, institutions, sovereigns, financial entities and Project Finance.

Liquidity and Funding Risk is defined as the failure by a financial entity to meet its payment commitments due to a lack of funds or, in order to meet those payments, it has to obtain funding under particularly onerous conditions.

Operational risk is defined as the potential loss resulting from: human errors; inadequate or failed internal processes; misconduct with customers, in the market or against the entity; failures, disruptions or deficiencies of systems or communications, theft, loss or misuse of information, as well as deterioration of its quality, internal or external fraud, including, in all cases: (i) those derived from cyber-attacks; (ii) theft or physical damage to assets or people; (iii) legal risks; (iv) risks derived from the management of the workforce and labor health; and (v) inadequate service provided by providers.

Market risk in the trading book is defined as the potential losses arising from movements in the price of the different securities (equity, fixed income, FX, volatilities, etc.), impacting the fair value of the financial instruments in the Markets units of the BBVA Group.

The Mexican financial authorities have formulated rigorous risk management regulations for the banking sector. The CNBV has issued a set of minimum requirements with respect to risk management practices for all banking institutions. The regulations require banks to have adequate policies and procedures to manage credit, liquidity, technological, market, operational and legal risks. This management process should include sound measurement and monitoring methods, as well as the establishment of risk limits. The regulations also require the establishment of a risk committee and a risk management unit. We have implemented and continue to update our program approved by our Board of Directors that complies with the requirements of the CNBV and requires higher standards regarding various topics.

Risk Management Organizational Structure

The Bank has an adequate general risk management and control model for our business model and our organization. This model allows us to carry out our activities within the parameters of our strategy and policies that define our governing bodies and adapt to a changing economic and regulatory environment. The model includes the following basic elements: (i) government and organization, (ii) risk appetite framework, (iii) evaluation, monitoring and reporting and (iv) infrastructure.

The risk appetite framework is a key element of the management of BBVA Group, and it provides a comprehensive framework that sets out the risks and exposure levels that the BBVA Group and the business areas are willing to assume to reach their goals considering the organic growth of the business. Our risk strategy is approved by our governing bodies (the Board of Directors and the Risk Committee) through the risk appetite framework and its statements, as well as the core metrics and by type of risk metrics, which together constitute the principles on which the risk function is based.

The head of the risk function at the executive level is the Chief Risk Officer (“**CRO**”) who is appointed by the Board of Directors as a member of senior management and reports directly to the Chief Executive Officer on the activities carried out by the corporate bodies. The CRO is responsible for the management of all the financial risks with the necessary independence, authority, rank, experience, knowledge and resources. The CRO is supported by a structure consisting of risk units in the corporate area and specific risk units in the business areas. The CRO provides information to the Risk Committee about the performance of risk portfolios and the actions taken by his units to manage them. The Risk Management Committee Strategies (“**RMC-E**”), the highest executive authority in terms of our risk management, was established to develop the strategies, policies, procedures and infrastructures required to

identify, assess, measure and manage material risks faced by us in the ordinary course of business, which in some cases are subject to approval by our governing bodies.

In addition, we have a specific Internal Risk Control unit whose main function is to ensure the integration of our risk strategy in all areas of our management through an internal regulatory framework.

Credit Risk

Credit Policies and Procedures

The credit risk policies and procedures constitute the internal regulatory framework over which prudential and integrated management is carried out during the credit life cycle (admission, monitoring and settlement).

The Risk Management Unit has hierarchies to authorize exposure to credit risk by the different units that comprise it. The approval is the result of an analysis of the potential or existing capacity of the client to comply in a timely manner with all financial obligations with business or other income. The risk decision is supported by risk models and tools that are used at all times in accordance with our policies and procedures.

Credit Risk Quantification

We have an integrated risk assessment system throughout the Bank that provides us with sophisticated risk measurement tools and risk management practices. We use the following two measures for this purpose:

- The expected loss is calculated on the total outstanding loan portfolio. Credit scores are calculated using qualitative and quantitative information obtained from financial statements and self-regulatory organizations. This score is determined to reflect the expected probability of a borrower's default and the expected loss given a default in any particular operation. We record this measure as a cost when creating a reserve for expected losses related to a particular portfolio. As of December 31, 2022, the total allowance for expected credit losses was Ps.49,558 million.
- The unexpected loss represents the uncertainty that actual losses will, in fact, differ from the expected loss as it measures the impact of external events that can affect a customer's probability of payment and helps us determine how much economic capital we need to maintain a satisfactory investment grade for our shareholders.

Credit Analysis and Pricing

Account officers are trained and responsible for assigning risk ratings based on a set of quantitative and qualitative variables, as well as information from credit rating agencies and credit agencies using homogeneous criteria. Different rating systems have been developed for different customer segments. The analysis of a loan application by an account officer is accompanied by a summary of the main sources of risk. With respect to the approval of commercial loans, several prior authorizations are required depending on the amount of the loan requested and the rating of a given debtor, as shown in the table below.

Middle-Market Division's Credit Authorizations by Credit Amount

Committee	Maximum amount (millions of U.S.\$)
Division Manager	30
Operations Technical Committee	120
Risk Management Committee – Admission	Greater than 120

The pricing of the loan is tied to our risk and operating costs. The pricing formula is based on the following factors: cost of funds (as priced by our finance division) based on general local market conditions, our yield model and market competition; commissions; operating costs; expected losses; required margins; adjustment for risk rating; and capitalization requirements.

Retail Lending Analysis

We perform credit analysis of all our retail borrowers. In the case of individual borrowers, the credit approval process is based primarily on an assessment of the borrower's ability to pay. A branch officer evaluates the information presented by the prospective borrower taking into account the following factors: (i) the results generated by an automated rating program, which takes into account the income, expenses and personal assets of the potential borrower; (ii) the credit history of the potential borrower; and (iii) our prior experience, if any, with the prospective

borrower. We have improved our systems to track the payment of loan balances and credit cards. Decisions on the granting of loans are made at different levels and with varying degrees of participation of executives and officers, depending on the size of the loan in question, the total amount of credit outstanding for the borrower and the complexity of the loan.

Our credit assessment procedures with respect to credit cards and consumer loans are based on a computerized credit scoring system. The credit rating process centralizes the decision-making process regarding the issuance of credit cards and increases in credit lines, which increases the level of control exercised in making such decisions. We have taken additional steps to improve the quality of our credit card assets, including increasing the minimum gross monthly income requirement for credit card applicants and verifying the information contained in credit card applications more rigorously. We have access to online information on the credit history of each of our credit card customers that we use in our decision-making process regarding increases or decreases in the line of credit provided to a particular client. We have also been working on the development of additional decision-making systems to verify the reliability of the information obtained from our admission process.

Our mortgage loan origination process is centralized and based on a computerized credit scoring system. The credit process begins in the prequalification phase, which serves as a filter for the loan approval process, and provides all the applicant's required information, including information about the applicant's credit history obtained through a credit bureau, which is reviewed to determine if the applicant meets the requirements. The prequalification standards. The evaluation of the property is carried out through a centralized independent unit. The relevant official reviews the applicant's file and the guarantee file (including the evaluation) to determine the capacity of the applicant's debt and the amount of the authorized loan. Once a final decision is made, the credit agreement is signed before a notary public, the deed is registered in the Public Registry and the funds are disbursed to the applicant's checking account. Loan to value relationships are established according to the size of the loan with a maximum of 90%, which requires a minimum initial payment of 10%. We only accept first mortgages on property.

Corporate and Middle-Market Lending Analysis

The evaluation of a potential corporate borrower focuses mainly on the credit history and reputation of its owners and management, its production processes and facilities, the diversification of its financing sources, its current and projected cash flows and the guarantee offered to the loans. With regard to loans to finance a particular project, the evaluation focuses mainly on the experience of the borrower, the existence of a technological alliance, market conditions and the projected financial condition of the borrower. We assign a credit risk rating based on this analysis that helps identify the customer's risk profile.

Account officers are responsible for preparing proposals related to corporate loan applications. Each loan application is classified according to its industrial sector and then reviewed by the credit manager responsible for that particular sector to determine if it deserves more consideration. The credit manager submits the proposal to the corresponding credit committee for approval.

Applications for loans in excess of U.S.\$120 million (or the equivalent in pesos) must be submitted by the responsible credit manager to our Risk Management Committee, which is composed of the Credit Risk Officer, the Director of Wholesale Credit Risk and credit managers of all sectors.

The middle market segment is covered by risk teams assigned to each of the divisions in which the business unit is divided. The division's risk managers report directly to the central risk department and make credit decisions through the division committees.

Monitoring

We operate a compliance center to monitor our borrowers' compliance with the terms of loans. The compliance center monitors the dates and payments of loans, the conditions and covenants of loans and any authorized exceptions to standard procedures. The monitoring process also includes the verification of the use of proceeds and satisfaction contractual conditions, financial analysis of the borrower and guarantors, on-site visits to the borrower's place of business, confirmation of credit bureau information and analysis of the economic environment, among other procedures. Finally, the compliance center also operates an early warning default system.

Pursuant to the rules governing lending activities under the General Rules Applicable to Mexican Banks, Mexican banks must implement certain measures relating to lending controls, including processes relating to loan promotion, evaluation, approval, documentation, management control and collection. We have implemented these measures with the approval of the CNBV.

Derivative Financial Instruments

Credit exposure from derivative financial instruments arises from the risk that customers or counterparties will default on their obligations to us. To reduce this risk, each customer or counterparty engaged in these transactions must have either a trading line of credit, which takes into account the trading risk for each customer or counterparty, or a collateral deposit. The amount of risk implied in derivative financial instrument transactions, measured as the potential credit exposure, is added to the total risk authorized for a specific customer and must be authorized by a credit committee. To quantify the amount of line of credit utilized by a specific customer or counterparty in a derivative financial instrument transaction, our risk management unit calculates, by the use of statistics and volatility levels, the maximum expected credit exposure within a pre-defined confidence level. This amount is the potential credit exposure and corresponds to an amount that must be blocked out of the customers' or counterparties' line of credit. Lines of credit are monitored during the day and at the end of the day by our risk management unit.

Liquidity Risk

Liquidity risk is related to the inability to efficiently meet both expected and unexpected current and future cash flows without affecting either our daily operations or our financial condition; it is also related to the structure of the balance sheet regarding the term structure gap between assets and liabilities. The purpose of managing liquidity risk is to minimize the cost of funds through adequate coverage of liquidity needs that arise in either the ordinary course of business or from unforeseen events.

Our treasury unit is responsible for maintaining adequate intraday and short-term liquidity levels in pesos and U.S. dollars. Our Asset and Liability Committee is responsible for maintaining overall adequate liquidity levels and funding structure in pesos and U.S. dollars, including planning of short and long-term wholesale funding issuances. Our principal sources of peso funding are customer deposits, which are highly concentrated in checking accounts (non-interest and interest-bearing) and short-term notes with interest due at maturity. Our main sources of U.S. dollar funding are checking accounts (non-interest and interest-bearing), time deposits and foreign exchange derivatives.

Liquidity risk is analyzed by time horizon (intraday, short and long-term), by concentration of funding, by the relation between the liquidity buffer and net outflows, by encumbrance of the Bank's assets, and by uses and sources of funding under normal and extreme conditions. Liquidity risk is monitored through a limit scheme for quantitative and qualitative indicators where, if necessary, a contingency funding plan is implemented for immediate corrective actions. Our non-peso lending activities generally have re-pricing intervals of one, three or six months depending on our funding opportunities. Spreads over the reference rate are managed in accordance with our marginal cost of funding in currencies other than pesos.

Operational Risk

Operational risk is the risk that cannot be classified as credit risk, market risk or technical or biometric risk. We measure and endeavor to control operational risk through our operational risk management unit (Non-Financial Risk).

Our operational risk management unit reports to a risk executive officer who is responsible for establishing and implementing methodologies and procedures to identify, measure, evaluate, follow up, monitor and mitigate operational risk throughout the Bank processes. Because operational risk mitigation is a part of every process, the responsibility of its management is assigned to each process owner or manager in the Bank who has designated a member of his staff as Responsible Control Assurer, each of whom works as a delegate of the operational risk management unit.

We mainly use tools such as "MIGRO" (*Marco Integral para la Gestión del Riesgo Operacional*) and "SIRO" (*Sistema Integrado de Riesgo Operacional*) to manage operational risk, each of which was developed in-house and is a proprietary trademark. MIGRO is a qualitative management tool that identifies and evaluates operational risk factors and helps us establish and prioritize mitigating measures, including a collection of a key risk indicators that are customized for each process and that provide information about the level and type of operational risk exposure in the respective process. SIRO is a database of historic losses suffered by us as a consequence of operational risk events that are classified by risk class and loss type, business unit and account, among other criteria.

Pursuant to applicable regulations in Mexico, as of the end of 2015, operational risk for regulatory capital is currently being calculated under a Basel II alternative standard approach. Operational risk for economic capital is calculated under a Basel II advanced approach with a diversified allocation of economic capital for each business unit.

Market Risk

Our exposure to market risk arises from trading and investment in financial instruments, where interest rates, foreign exchange rates (mainly the peso/U.S. dollar exchange rate) and stock prices are the most important sources of market risks, and from traditional banking services such as deposit taking and lending, where the balance sheet is exposed to interest-rate risk and foreign-exchange risk.

Trading positions are evaluated on a daily basis for market risk using Value at Risk Methodology. In addition, information regarding risk versus limits, scenario analysis and stress tests is produced on a daily basis.

Our risk management unit uses a historical simulation model to calculate value at risk. Equally weighted historical simulation is used as the central measure, against which limits are compared. In addition, historical simulation with an exponentially weighted moving average is used as a complement because it is more sensitive to risk and, therefore, responds more quickly to changes in volatility and correlation levels. Finally, the effect of portfolio diversification is measured within each model.

Historical data of market parameters such as interest rate curves, foreign exchange prices, volatilities and stock indexes for the last two years are available for value at risk calculations. “Unwind Period Value at Risk” looks to reflect market liquidity risk by calculating the number of days it will take to unwind a position without affecting the market. In making these calculations, market outstanding amounts and trade volume information is compared against current exposures, with the information being updated periodically for internal use.

The following table sets forth the average, maximum and minimum values of the daily Value at Risk during the year ended December 31, 2022, as well as the daily limits in effect as of December 31, 2022. Daily Value at Risk is calculated with a 99% confidence level. Value at Risk is calculated to represent the maximum loss at this confidence level due to changes in market values of trading positions. The information below does not include securities that are no longer traded, recorded as for sale, or as held-to-maturity, or that are highly illiquid or in workout. During the year ended December 31, 2022, daily Value at Risk did not exceed Ps.165 million (U.S.\$8.5 million). The daily consolidated Value at Risk limit was Ps.340 million. Limits are reviewed periodically.

	Year ended December 31, 2022			Actual limit as of December 31, 2022
	Average	Maximum	Minimum	
Equities	3	5	1	50
Interest rate.....	101	171	77	320
Foreign exchange	26	44	16	110
Vega EQ.....	1	1	—	10
Vega FX.....	4	9	2	20
Vega IR.....	6	9	5	37.5
Total	118	165	82	340

Stress testing is used to complement the value at risk methodology. Stress testing involves the creation of scenarios based on infrequent or catastrophic events to evaluate contingencies, and is of particular importance in periods of highly volatile or illiquid markets. The sensitivity analysis we conduct shows the effect on positions caused by predetermined changes in market variables (a 1% increase in interest rates).

In addition, we have a stop-loss process that issues a warning if losses reach a certain level preset by our Board of Directors. If a stop-loss warning is issued, the trading desk head is convened to establish an action plan.

Our Asset and Liability Committee monitors our Basis Point Value (“BPV”) and Net Interest Income (“NII”), exposures and positions of our banking book. We seek to manage our assets and liabilities to reduce any potential adverse impact on our results of operation and economic value that might result from changes in interest rates. Exposure of interest rate risk in the banking book is conducted through systematic monitoring of limit exposure. Particularly, we have established sensitivity alerts for BPV and expected NII for the following twelve months, as well as limits for economic capital, which is the maximum expected loss in net economic value with a 99% confidence level over a three-month volatility horizon, and for margin at risk, which is the maximum expected loss in net expected NII for the following 12 months with a 90% confidence level over a three-month volatility horizon.

The primary methods used to estimate the interest rate risk of the balance sheet portfolio are as follows:

- parallel and non-parallel scenario analysis (including theoretical and historical stress scenarios); and
- interest rate simulation.

Non-maturity products are characterized according to their economic durations and to their market rate sensitivity and using a stability model. Also, prepayment models are considered for mortgage and consumer loans.

Our non-peso lending activities are generally priced based on SOFR-related reference rates, with re-pricing intervals of one, three or six months depending on our funding opportunities. Spreads over the SOFR reference rate are managed in accordance with our marginal cost of funding in currencies other than pesos.

MANAGEMENT

Board of Directors

Pursuant to Mexican Banking Law, the board of directors of the largest Mexican banks must be composed of a minimum of five and a maximum of 15 directors, of whom at least 25% must be independent. For each director an alternate may be appointed; *provided*, that alternate directors of the independent directors shall also be independent. In each session an alternate may only represent one director. No more than a third of the board members may be employees of the relevant bank.

On February 28, 2023, our shareholders accepted the resignation presented by Mr. Eugenio Bernal Caso from his position as secretary non-member of our Board of Directors. Consequently, Mr. Jacobo de Nicolás de Benito was appointed as new secretary non-member of our Board of Directors. On February 28, 2023, our shareholders voted to ratify the rest of the members of our Board of Directors.

On February 28, 2022, our shareholders voted to ratify the members of our Board of Directors, who, in accordance with our by-laws, will serve for a term of one year and may be re-elected. Our Board of Directors meets at least every three months and is chaired by Mr. Jaime Serra Puche, who is also the Chairman of the Board of Directors of GFBM. Except as otherwise indicated, the address for each director listed below is Paseo de la Reforma No. 510, Colonia Juárez, Demarcación Territorial Cuauhtémoc, Mexico City, Mexico, C.P. 06600.

None of the directors or alternate members of our Board of Directors is related by blood or affinity up to the fourth degree or by civil relationship. None of the members of the Board of Directors has an individual holding of more than 1%.

The Board of Directors of the Bank is composed of nine directors and nine alternate directors. Of the total number of directors, six are independent, of which three are directors and three are their respective alternates.

The following table presents our current directors and their alternates:

Name and position	Principal activity	Years on our board of directors	Age
<i>Chairman</i>			
Jaime Serra Puche.....	Chairman of GFBM	15	72
<i>Vice Chairman</i>			
Eduardo Osuna Osuna	Chief Executive Officer; General Director of the Bank	7	53
Onur Genç	CEO of BBVA Spain	4	48
Carlos Torres Vila.....	Chairman of BBVA Spain	6	57
Vicente Maria Rodero.....	Independent Council	10	65
Carlos Vicente Salazar Lomelín.....	Chairman of Corporate Coordinating Counsel	18	71
Ricardo Guajardo Touché.....	Independent Council	31	74
Jorge Saenz-Azcunaga Carranza.....	Country Monitoring BBVA Spain	6	53
Cristina de Parias Halcón.....	Independent Council	3	57
<i>Alternates</i>			
Alejandro Mariano Werner Wainfeld	Director of the Western Hemisphere for the IMF	1	56
Armando Garza Sada.....	CEO of Alfa and Nemark Group	4	65
Juan Asúa Madariaga.....	Senior Advisor Chairman BBVA Spain	4	60
Fernando Gerardo Chico Pardo.....	Chairman and General Director of Promecap, S.C.	13	71
Eduardo Javier Garza Fernández	Chairman of Frisa Group	4	74
Arturo Manuel Fernández Pérez	The Dean of the Instituto Tecnológico Autónomo de México (ITAM)	29	69
Ana Laura Magaloni Kerpel	Founding Member of Magaloni Abogadas, S.C.	1	59
Enrique de Jesús Zambrano Benitez	CEO of Grupo Proeza	3	67
Alejandro Ramírez Magaña	CEO of Cinépolis de México, S.A. de C.V.	9	52

Examiners

The examiners of the Bank must be residents of Mexico. The duties of the examiners include monitoring and supervising our operations, books and records. The examiners must comply with obligations imposed by law and bylaws and must meet the following requirements:

- technical expertise;
- extensive knowledge and experience in accounting, financial, legal or administrative matters;
- satisfactory credit and business history;
- moral character; and
- absence of any legal impediment to the performance of their duties (such as conflict of interest).

Because of the relationship between the examiners and the Bank, the examiners are bound by confidentiality obligations. They may attend the meetings of our board of directors and our shareholders but may not vote.

Although some of the functions of the examiner and the external auditor are similar, their responsibilities differ. To avoid conflicts of interest, examiners cannot sign the audit opinion on our annual financial statements.

Board Activities

The main functions of our Board of Directors are to:

- manage and represent the Bank and fulfill its corporate purposes;
- implement the agreements adopted by the shareholders' meeting;
- appoint and dismiss the Secretary and Alternate Secretary. Appoint the General Director, executive officers and the internal and external auditors;
- create committees and commissions as it deems necessary, delineating their structure, organization and authority and granting them the necessary powers to carry out the business as the board may determine;
- approve the internal regulations; and
- call for the ordinary and extraordinary shareholders' meetings.

Risk Committee

Our credit and market risk committee is responsible for:

- approving credit and market risk management policies (excluding policies that must be approved by the full Board of Directors);
- appointing and dismissing the responsible of the Integrated Risk Management Unit;
- informing the Board of Directors on a quarterly basis about the risk exposure of the Bank;
- establishing the framework of appetite for risk;
- creating committees as it deems necessary;
- performing, if applicable, the functions inherent to the Compensation Committee related to the "General Provisions applicable to Credit Institutions" issued by the CNBV; and
- addressing certain special issues referred to it by our Board of Directors.

The current members of our credit and market risk committee are Arturo Manuel Fernández Pérez (Chairman), Alejandro Mariano Werner Wainfeld, Eduardo Osuna Osuna, Jaime Serra Puche, Ricardo Guajardo Touche, Blanca Cecilia Muñoz Martínez and pursuant to the general rules applicable to the brokerage institutions (*Disposiciones de carácter general aplicables a las casas de bolsa*), to the general manager of Casa de Bolsa BBVA México, S.A. de C.V., Grupo Financiero BBVA México. Effective as of February 28, 2023, Jacobo de Nicolás de Benito acts as Secretary of the committee without being a member and José Francisco Eduardo Uriegas Flores acts as Alternate Secretary of the committee but is not a member of the committee.

Audit Committee

Our audit committee performs the following functions:

- *Internal Controls.* Our audit committee reviews and submits internal control procedures and policies to our Board of Directors for approval, analyzes and approves operations manuals and evaluates our internal control system, reporting its findings and recommendations to our Board of Directors.
- *Code of Ethics.* Our audit committee analyzes amendments to our code of ethics and submits its recommendations to our Board of Directors for its approval.
- *Financial Information.* Our audit committee makes recommendations to our Board of Directors concerning the preparation of our financial information to ensure it is useful, adequate and reliable. The committee also reviews our financial statements, on a quarterly and annual basis, before they are presented to our Board of Directors and reviews the relevant changes in accounting principles to ensure our financial statements comply with them.
- *Compliance.* Our audit committee reviews and approves the annual program of our compliance unit before it is presented to our Board of Directors, and the committee verifies our compliance with the program.
- *Anti-Money Laundering and Anti-Funding to Terrorism.* Our audit committee examines and approves annually the working plan about these matters. Every six months the committee evaluates the fulfillment of this plan and its outcomes.
- *Internal Auditing.* Our audit committee evaluates and makes recommendations to our Board of Directors concerning the appointment of the head of our internal audit unit; reviews and approves our annual auditing plan; supervises and evaluates the independence, quality and effectiveness of our internal auditing department; facilitates communication between our Board of Directors and our auditors, oversees training of internal auditors; and oversees the implementation of corrective measures taken based on recommendations from the audit committee.
- *External Auditing.* Our audit committee submits external auditing candidates to our Board of Directors for its approval, verifies that we rotate external auditors every five years, evaluates the independence of the external auditor, ensures that the external auditing program is based on contractual agreements and reviews the external auditor's reports before they are presented to our Board of Directors.
- *External Supervision.* Our audit committee reviews the results of any inspections by external supervisory bodies and oversees our compliance with their recommendations.
- *Systems.* The audit committee is informed about the incidents that occur in systems and services provided to users through electronic media (i.e., e-mail and websites), to ensure that measures are taken to prevent or avoid any incidents in the future.
- *Outsourcing Operations.* The audit committee is informed of the performance of contracted services to third parties, as well as of compliance with applicable regulations relating to such services, to ensure that appropriate mechanisms are followed to manage, control and protect information created, received, transmitted, processed or stored in the technological infrastructure, telecommunications or information processing services that are performed by such third parties.
- *Credit Risk.* The audit committee is provided with quarterly reports on any deviations detected with respect to objectives, guidelines, policies, procedures, strategy and current regulations concerning credit.
- *Derivative Operations.* Each year the audit committee is informed and informs the Board of Directors of the results of the annual evaluation regarding our compliance with the requirements imposed by *Banco de México* on our derivative operations, including approval by our Board of Directors of our procedures, products and risk limits, qualification of our personnel and sufficiency of our infrastructure and internal controls related to our derivative operations.
- *Remuneration System.* Each year the audit committee must update the Board of Directors regarding the compliance, procedures and success of the remuneration system.

The current members of our audit committee are Ricardo Guajardo Touché (Chairman), Ana Laura Magaloni Kerpel and Jaime Serra Puche. Effective as of February 28, 2023, Jacobo de Nicolás de Benito acts as Secretary of the committee but is not a member of the committee, and José Francisco Eduardo Uriegas Flores acts as Alternate Secretary but is not a member of the committee.

Executive Committee

Our executive committee is responsible for:

- working on special and urgent matters of competence of the Board of Directors that cannot be considered by the entire Board of Directors given time limitations or other limiting factors. The resolutions of the executive committee must be ratified by the Board of Directors;
- being knowledgeable about any matter that the Chairman or the General Director submits to the committee;
- convening extraordinary meetings of the Board of Directors; and
- resolving any matter expressly delegated to it by the Board of Directors.

The current members of the executive committee are Jaime Serra Puche (Chairman), Eduardo Osuna Osuna, Ricardo Guajardo Touché and Carlos Torres Vila. Effective as of February 28, 2023, Jacobo de Nicolás de Benito acts as Secretary of the committee without being a member and José Francisco Eduardo Uriegas Flores acts as Alternate Secretary of the committee without being a member).

Related Party Transactions Committee

Our related party transactions committee is responsible for:

- approving related party transactions with a potential risk equal or below 5% of the net basic capital of the Bank; and
- informing the Board of Directors of the performance of such related party transactions at least every 180 days, including the amount thereof.

The current members of the committee of related party transactions are Arturo Manuel Fernández Pérez (Chairman), Eduardo Osuna Osuna, Jaime Serra Puche and Alejandro Mariano Werner Wainfeld. Effective as of February 28, 2023, Jacobo de Nicolás de Benito acts as Secretary of the committee without being a member and José Francisco Eduardo Uriegas Flores acts as Alternate Secretary of the committee without being a member).

Executive Officers

Our executive officers are appointed by the Chief Executive Officer or by the Board of Directors in accordance with our bylaws and applicable regulations. The latest amendment to the organizational structure was approved by the Board of Directors on December 11, 2019.

Our executive officers received an aggregate fixed compensation in 2022 of Ps.251.17 million and an aggregate variable compensation of Ps.93 million. The amount of variable compensation was determined under the same criteria that apply to the rest of the Bank's executive staff, which consists of setting annual Bank, area/country and individual (financial and non-financial) evaluation indicators; the corresponding achievement scales, according to the weighting attributed to each indicator; and an annual variable "target" compensation, which represents the amount of annual variable compensation in the event of reaching 100% of the pre-established objectives. The resulting amount constitutes the annual variable compensation for each officer.

The Bank reflected a liability of Ps.542 million on its balance sheet in respect of obligations under the pension plan for our executive officers, and an additional Ps.65 million for additional retirement benefits, for a total amount of Ps.607 million. These liabilities include contractual retirement conditions.

None of our executive officers are related by consanguinity or affinity up to the fourth degree or by civil relationship. None of our executive officers has an individual holding of more than 1%. The following table sets forth our current executive officers:

Name	Position	Years employed by the BBVA Group	Age
Eduardo Osuna Osuna	Chief Executive Officer; Vice Chairman; General Director of the Bank	28	53
Luis Ignacio de la Luz Dávalos	General Director—Finance	22	51
Jacobo de Nicolás de Benito	General Director—Legal Services	19	50
Blanca Cecilia Muñoz Martínez	General Director—Global Risks Management	38	61
Jesús María Verdugo Borja	General Director—Regulation and Internal Control	7	44
Enrique José Fernández Gutiérrez	General Director—Talent and Culture	8	40
Álvaro Vaqueiro Ussel	General Director—C&IB Global Markets	17	54
Alejandro José Cárdenas Bortoni	General Director—Business and Government Banking	25	51
Rafael Juan Rosales Gómez	General Director—Engineering & HoDMX	38	57
Rafael Humberto del Rio Aguirre	Director—Unique Experience	42	60
Hugo Daniel Nájera Alva	General Director—Business Development	30	58
Guillermo Estrada Attolini	General Director—Commercial Banking Network	35	57
Adolfo Arcos González	General Director—Audit	17	44

RELATED PARTY TRANSACTIONS

Operations to Related Parties

The Mexican Banking Law regulates and limits our credit and other transactions (including bank deposits, loans, credits, market investment securities and derivative transactions and other types of financing) to related parties pursuant to which such parties may become creditors of the Bank, except for certain exceptions applicable to transactions involving officers or employees of the Bank in connection with certain employment benefits. As permitted by the Mexican Banking Law, we currently provide loans to our employees at favorable rates.

Article 73 of the Mexican Banking Law regulates and limits our loans and other transactions (including securities and derivatives transactions) to related parties pursuant to which such parties may become creditors of a bank, including loans to (1) individuals or corporations controlling, directly or indirectly, 2% or more of the securities representing the capital stock of the institution, of the holding company or of the financial entities and companies that are members of the financial group to which, if applicable, the Bank belongs, according to the most shareholders register, (2) the members of the board of directors, the institution, the holding company or the financial entities and companies that are members of the financial group to which, where appropriate, it belongs, (3) relatives of the persons referred to in the prior sections, (4) persons other than officials or employees who, with their signature, may bind the institution, (5) the legal entities, as well as their directors and officers, in which the institution or the holding company of the financial group to which, where appropriate, the institution belongs, have, directly or indirectly, control of 10% or more of its capital stock; *provided*, that the indirect participation of multiple banking institutions and holding companies through institutional investors provided for in article 15 of the Mexican Banking Law will not count to consider the issuing company as related; (6) the legal entities in which the officials of the institutions are directors or administrators or occupy any of the first three hierarchical levels in the legal entities, and (7) the legal entities in which any of the persons indicated in the sections above, as well as officials or employees, commissioners and external auditors, have, directly or indirectly, control of 10% or more of their capital stock, or in which they hold representative authority.

Our Board of Directors must approve such loans by qualified majority of the votes. Before approval, however, the loan must undergo our customary review procedures for loans, which will vary depending on the nature and amount of the loan, except that such loans must always be reviewed and recommended by the highest loan review committee at the management level. In addition, CNBV shall be informed about certain loans. Loans to individuals in amounts less than the greater of (i) two million UDIs or (ii) 1% of a bank's Tier 1 net capital (approximately Ps.283,355 million, as of December 31, 2022, in our case), are exempt from such provisions. Loans to related parties may not exceed 35% of a bank's Tier 1 Capital. The CNBV may, upon request, grant exemptions from these provisions.

Loans with related parties in which the aggregate amount does not exceed one percent of the basic part of the Bank's net capital, to be granted in favor of the same person or group of people who, due to their patrimonial or liability ties, constitute common risks for the Bank, will not require the approval of the Board of Directors. However, they must be made known and all the information related to them must be made available to it.

The Related Party Transactions Committee shall have the exclusive function of approving operations with related parties, where the amount does not exceed five percent of the basic part of the Bank's net capital.

The CNBV has adopted rules which exclude from the category of loans to related parties (i) loans granted to the Mexican federal government and to companies that provide banking ancillary services, (ii) financial entities that are part of the same financial group, and (iii) loans for an aggregate amount not exceeding 400,000 Investment Units ("**Unidades de Inversion**"). These loans are not considered for purposes of determining the 35% of Tier 1 Capital limit of our loan portfolio that may consist of loans to related parties, and do not require the prior approval of our Board of Directors.

As of December 31, 2022, our loans to related parties under Article 73 of the Mexican Banking Law totaled Ps.41,308 million, which comprised 2.72% of our total loan portfolio as of such date. Of the Ps.41,308 million, Ps.24,904 million were loans made to the BBVA Group and/or their guarantee schemes and Ps.16,404 million were loans made to borrowers affiliated with members of our Board of Directors. Our loans to related parties are made on terms and conditions comparable to other loans of like quality and risk. Of all the related party loans outstanding on December 31, 2022, 96.26% were graded "A" 3.7% "B" and 0.04% "C" under the regulations of the CNBV. The majority of such credits are loans for either commercial or industrial activities.

Affiliate Transactions

From time to time we enter into agreements, including service agreements, with our affiliates. We have entered into service agreements with our affiliates, including with (1) BBVA Servicios Corporativos México, S.A. de C.V. for the sale of certain banking products, (2) BBVA Seguros México, S.A. de C.V., Grupo Financiero BBVA México for the sale of insurance policies and (3) Casa de Bolsa BBVA México, S.A. de C.V., Grupo Financiero BBVA México for brokerage services.

Based on these service agreements, we receive fees on a cost basis from BBVA Seguros México, S.A. de C.V., Grupo Financiero BBVA México and pay fees on a cost basis to BBVA Servicios Corporativos México, S.A. de C.V. and Casa de Bolsa BBVA México, S.A. de C.V., Grupo Financiero BBVA México. No assurance can be given that transactions between us, on the one hand, and GFBM and our affiliates (including BBVA Spain), on the other hand, have been or will in the future be conducted on a basis as favorable to us as could be obtained by us from unaffiliated parties. Future conflicts of interest between us, on the one hand, and GFBM and our affiliates (including BBVA Spain), on the other hand, may develop, which are not required to be and may not be resolved in our favor.

All of our transactions among our subsidiaries are carried out at arms' length and in compliance with the applicable legal framework on transfer price matters. For further information, see Note 25 to our Audited Financial Statements included elsewhere in this Offering Memorandum.

THE MEXICAN FINANCIAL INDUSTRY

General

Mexico's financial industry is currently comprised of commercial banks, national development banks, brokerage firms, development trust funds, and other non-bank institutions, such as insurance and reinsurance companies, bonding companies, credit unions, savings and loan companies, popular financial entities, foreign exchange houses, factoring companies, bonded warehouses, financial leasing companies, investment funds, mutual fund, pension fund management companies and limited purpose financial institutions. In 1990, Mexico adopted the first Financial Groups Law (*Ley para Regular las Agrupaciones Financieras*) aimed at achieving the benefits of universal banking, which permits a number of financial services companies to operate as a single financial services holding company. The Financial Groups Law was amended and restated on January 10, 2014. Most major Mexican financial institutions are members of financial groups.

The principal financial authorities that regulate financial institutions are *Banco de México*, the SHCP, the CNBV, the National Commission for Retirement Savings (*Comisión Nacional del Sistema de Ahorro para el Retiro*, or the "CONSAR") the National Insurance and Bonding Commission (*Comisión Nacional de Seguros y Fianzas*, or the "CNSF"), the IPAB and the CONDUSEF.

Nationalization and Subsequent Privatization

On September 1, 1982, Mexico's president decreed the nationalization of the private banking in Mexico. On November 18, 1982, a constitutional amendment came into force to implement the nationalization, which granted the Mexican government a monopoly on banking and credit service. The number of banking institutions was reduced from 68 to 29 in the first two years of nationalized banking. By 1988, the number had been further reduced to 18 entities, of which six had national coverage, five were regional banks and seven were multi-regional banks.

On June 28, 1990, an amendment to the Mexican constitution came into force to permit Mexican individuals and financial services holding companies to own controlling interests in the then-existing 18 Mexican commercial banks owned by the Mexican government. Subsequently, on July 18, 1990, a new Mexican Banking Law was enacted to regulate the ownership and operation of full-service banks, national development banks, and the establishment in the national territory of representative offices of foreign financial entities. Thus, the process of re-privatization of the private banking in Mexico began. By the third quarter of 1992, the Mexican government had privatized all 18 state-owned commercial banks. Since that time, new commercial banks, have been chartered and regulations regarding investment in the banking sector by foreign investors, including foreign sovereigns, have become more flexible.

Financial Groups Law

The enactment of the former Financial Groups Law in 1990 permitted the development of the universal banking model in Mexico. By July 1992, most major Mexican financial institutions had become part of financial groups controlled by a holding company, such as ourselves, and made up of a number of financial operating entities.

The operations of financial services holding companies are generally restricted to holding shares representing the capital stock of financial operating subsidiaries. Such subsidiaries may include Mexican banks, brokerage firms, insurance companies, bonding companies, mutual fund operators, bond-warehousing companies, *Sofomes*, foreign exchange service providers, retirement fund administrators and financing companies that provide credit to low income borrowers (*sociedades financieras populares*). As a general rule, a financial services holding company must maintain a majority participation and effective control of at least two financial subsidiaries, provided that holding only two *Sofomes* does not constitute a financial services holding company.

The Mexican Financial Groups Law allows entities controlled by the same financial services holding company:

- to act jointly before the public, offer services that are supplemental to the services provided by the other and hold themselves out as part of the same group;
- use equal or similar corporate names that identify them with the public as members of the same financial group (except for fintech institutions); and
- conduct their activities in the offices and branches of other entities as part of the same group.

In addition, the Mexican Financial Groups Law requires that each financial services holding company enter into an agreement with each of its financial group services subsidiaries, pursuant to which the holding company agrees to guarantee without limitation the satisfaction of the obligations undertaken by its subsidiaries as a result of the activities that each such subsidiary is authorized to conduct under the applicable laws and regulations, and is fully responsible for the losses of its subsidiaries, up to the total amount of the holding company's assets. If the assets of the financial services holding company are insufficient to meet the losses of its subsidiaries if occurred simultaneously, the financial services holding company must first meet the liabilities of the credit institution that is part of the group and subsequently the liabilities of any other entities that form the group will be prorated. For such purposes, a subsidiary is deemed to have losses if its assets are insufficient to meet its payment obligations. The subsidiaries will never be held liable for the losses of their financial services holding company or for the losses of the other subsidiaries of the group.

On March 9, 2018, the Financial Groups Law was modified to permit fintech institutions to be part of financial groups, so long as a fintech institution that is a part of a financial group may not use a denomination or name similar to those used by the other financial institutions that are members of that group.

Authorities of the Mexican Financial System

The principal financial authorities that regulate financial institutions are *Banco de México*, the SHCP, the CNBV, the CONSAR, the CNSF, the IPAB, and the CONDUSEF. These authorities are subject to a number of organic laws and other administrative regulations that govern their regulatory, supervisory and other powers. Also, these entities continually enact administrative regulations within the scope of their respective authority for the regulation of the corresponding financial entities, as further mentioned below. We, as a financial services holding company, are subject to the supervision and regulation of the CNBV and the CONDUSEF, particularly with respect to retail consumer banking. In addition, we and other financial subsidiaries are subject to the supervision and regulation of their corresponding financial authority, and are in constant interaction with such authority during the normal course of their business.

Banco de México

Banco de México is the Mexican central bank, which is an autonomous entity that is not subordinate to any other authority of the Mexican federal government. The purpose of *Banco de México* is to provide the country with domestic currency, promote the healthy development of the financial system and foster the proper functioning of the payment systems. Likewise, its main objective is to ensure the stability of the peso's purchasing power.

The exercise of *Banco de México*'s functions and administration are entrusted, within the scope of their respective competencies, to a Board of Governors and a Governor. The Board of Governors is composed of five members, the Governor himself and four Deputy Governors, all of whom are appointed by the President of Mexico and ratified by the Senate or the Permanent Commission of the Mexican Congress, as the case may be. Among the powers of the Board of Governors are the authorization of orders for the minting of coins and the production of banknotes, the decision to grant credit to the Mexican Federal Government, the determination of policies and criteria that *Banco de México* uses in its operations, and the issuance of general rules and criteria to which the preparation and exercise of the budget must be subject.

SHCP

The SHCP is the regulator in charge of proposing, conducting and controlling the policy of the Mexican federal government in matters of economics, tax, finance, public budget, public debt and income. Together with the CNBV and *Banco de México*, it is the primary regulator of commercial and national development banks. The SHCP participates in the process of incorporation, revocation, operation, merger, control and stock purchase of financial institutions by providing opinions in each of them.

CNBV

The CNBV is a governmental authority subordinated to the SHCP and has independent technical and executive powers. The CNBV is in charge of the authorization, supervision, regulation and penalty of financial entities, with the purpose of ensuring their stability and sound performance, as well as the maintenance of a sound financial system. The scope of the CNBV's authority includes inspection, supervision, prevention and correction powers, including the imposition and supervision of capitalization requirements and requirements for the creation of loan-loss reserves. The primary financial entities regulated by the CNBV are commercial banks, national development banks, regulated multiple purpose financial institutions, brokerage firms, as well as publicly traded companies and other

entities that have issued debt securities to the public. The CNBV is also in charge of granting and revoking banking, securities brokerage and fintech licenses in Mexico.

CNSF

The CNSF is a governmental authority ascribed to the SHCP and has independent technical and executive powers. The CNSF is in charge of the supervision and regulation of insurance and bonding companies, promoting the safe and sound development of the insurance and guaranty bond financial sectors.

IPAB

After the 1994 financial crisis, the Mexican federal government created the IPAB, an independent, decentralized governmental institution with its own legal standing and assets. The IPAB's primary purpose is the protection and insurance of bank deposits, and it also has the power to provide solvency to banking institutions, thereby contributing to the sound development of the banking sector and the national payments system. The IPAB is also entitled to acquire assets from distressed banking institutions.

CONDUSEF

The CONDUSEF is a governmental authority, decentralized from the SHCP. The CONDUSEF is in charge of providing financial guidance and information to costumers of financial services as well as protecting and defending the rights of users of financial services, and serves as an arbitrator between financial institutions and their customers, having the power to establish regulations and impose sanctions to financial institutions in order to protect consumers. Among others, the CONDUSEF has the power to order the amendment of standardized agreements used by financial entities when it considers that such agreements contain abusive clauses, it may issue general recommendations to financial institutions, and suspend the distribution of information regarding financial services and products that it considers confusing.

The Banking Sector

Banking activities in Mexico have been and continue to be affected by prevailing conditions in the Mexican economy, and the demand for and supply of banking services have been vulnerable to economic downturns and changes in government policies and the current situation arising from the COVID-19 pandemic may have an adverse effect on our business, financial condition and results of operations. .

Amendments to the Rules for Performing Derivatives Operations

On March 14, 2023, *Banco de México* published Official Letter 2/2023 in the Federal Official Gazette, directed, among others, to banks, broker dealers and other financial institutions regarding amendments to the rules for performing derivative operations set forth in Official Letter 4/2012, including the obligation of such financial institutions to post and receive initial and variation margins. Particularly, the modifications to Official Letter 4/2012 consist, among others, of the following: (a) the inclusion of the concept of “Non-Centrally Cleared Over the Counter Derivative Transactions”, which are defined as those whose clearing or settlement of the respective obligations is not carried out through clearinghouses or foreign financial institutions that act as central counterparties; (b) the inclusion of the concept of initial margin and variation margin for derivative transactions that are not cleared or settled in clearinghouses or foreign entities that provide central counterparty services; (c) within the margins, the establishment of guidelines for its constitution, determination for its calculation, the models that can be used for its calculation, the obligations that must be met for the use of the calculation models, exceptions for the exchange of margins, thresholds for the exchange of initial margins, assets that can be accepted for the exchange of margins, as well as the requirements that the master agreements must meet for the exchange of margins; and (d) the identification of the entities that have to carry out the administration and custody of the assets that are received as collateral of initial margins, as well as the requirements for their contracting.

No later than March 15, 2024, master agreements must be amended in order to establish the procedure by which the exchange of margins will be carried out with respect to derivative transactions that are held in over-the-counter markets whose clearing and settlement is not carried out through from clearinghouses or foreign institutions that act as central counterparties and that will be subject to the exchange of margins.

Reforms to Mexican Banking Law

On January 10, 2014, several amendments to the Mexican Banking Law were published in the Federal Official Gazette, and are currently in effect, which provide for following:

- *Update capital requirements according to Basel III.* The amendments to the Mexican Banking Law update the capital requirements for banking institutions by incorporating the requirements of the Basel III accords, currently included in the General Rules Applicable to Mexican Banks, The amendments specify that net capital will be comprised of capital contributors, retained profits and capital reserves. The CNBV is authorized to allow or prevent the inclusion of other items to calculate a bank's net capital.
- *Strengthen measures to maintain the liquidity requirements of banks.* The amendments to the Mexican Banking Law grant authority to the CNBV to order adjustments to a bank's accounting registries. If a bank fails to meet the liquidity requirements imposed by CNBV and *Banco de México*, the CNBV may order the bank to adopt actions toward meeting its liquidity requirements, including suspending or partially limiting certain lending, borrowing or service operations of the bank, and requiring the bank to present a liquidity restoration plan.
- *Create a special liquidation mechanism for banks.* The amendments to the Mexican Banking Law establish that the revocation of a bank's authorization to organize and operate as a banking institution, will immediately lead to the resolution and liquidation of the bank under the provision of the Mexican Banking Law excluding banks from the *concurso mercantil* procedure under the Mexican Bankruptcy Law. Except when the shareholders specifically request the revocation of the authorization to organize and operate as a bank, the IPAB will act as receiver (*liquidador judicial*) of the bank in liquidation.
- *Allow foreign government to hold shares in Mexican banks under certain conditions.* The amendments to the Mexican Banking Law expressly set forth an exception to the rule prohibiting the participation of foreign governments in the capital stock of banking institutions, when such governments hold equity in the banking institution (i) pursuant to preventive temporary measures, such as financial support or rescue programs, (ii) when control over such institution is held through official entities (such as funds or support governmental entities) and there is evidence that such entities do not exercise any authority functions and their decision making bodies operate separately from the relevant foreign government, and (iii) when the participation is indirect and does not imply the control by the relevant foreign government over the banking institution in terms of the Mexican Banking Law.
- *Strengthen the authority of CNBV.* The amendments to the Mexican Banking Law reinforce the oversight powers of CNBV by giving it authority to order the suspension or limitation of transactions with related parties if such transactions are not within market terms. The CNBV may also order measures to stimulate banks into channeling more funds to the productive sector of the Mexican economy.

In addition, on March 9, 2019, the Mexican Banking Law was amended to (i) establish the regulation of the use of advanced electronic signatures and any other form of electronic authentication for the execution of transactions between banks and their customers, provided that such means comply with CNBV requirements and (ii) allow fintech institutions to be funded by the public without violating the Mexican Banking Law. In addition, the definition of banking crimes was expanded to include more specific scenarios in which identity fraud occurs.

On March 27, 2020, the Mexican Banking Law was amended in order to allow banks the opening of deposit accounts for minors under the age of 18 through their legal representatives, with the exception that minors aged 15 years or over may open an account without the intervention of their representatives, under the condition that these accounts will be limited to receiving resources from government programs and salaries deposited by their employer.

On April 17, 2023 the Mexican Banking Law was amended. The amendments, which will be effective on October 1, 2023, were enacted in order to, among others, (a) strengthen the provisions that limit the maximum loss to a counterparty or group of interconnected counterparties that, due to their size, could jeopardize the solvency and continued operation of credit institutions, (b) establish measures that allow credit institutions to identify and control the levels of concentration of exposures to counterparties or group of counterparties that could be related to each other, (c) establish new maximum funding limits, including a specific limit for risk groups associated with local or global systemically important banking institutions, and (d) regulate a standardized and homogeneous treatment in the deduction of regulatory capital for computation purposes, in terms of international best practices.

Funding TIE (*TIE de Fondeo*)

On April 13, 2023, *Banco de México* published in the Federal Official Gazette (i) Official Letter 3/2023 (*Circular 3/2023*) addressed to Credit Institutions and Regulated Multiple Purpose Financial Companies, related to the amendments to Official Letter 14/2007 (*Circular 14/2007*) and (ii) Official Letter 4/2023 (*Circular 4/2023*) addressed to Credit Institutions, Regulated Multiple Purpose Financial Companies that maintain equity links with Credit Institutions and the Rural Financing Public Institution (*Financiera Nacional de Desarrollo Agropecuario, Rural, Forestal y Pesquero*), regarding the amendments to Official Letter 3/2012 (*Circular 3/2012*), in order to establish the transition from the TIE for terms longer than one banking business day to the Funding TIE (*TIE de Fondeo* - i.e., to the TIE for terms of one banking business day), as well as to establish the dates as of which the use of the TIE in local currency for terms longer than one banking business day will be restricted as a reference for new transactions.

Initiatives to Improve Creditors' Rights and Remedies

In Mexico, legislation has been enacted to improve creditors' rights and remedies. These laws include collateral pledge mechanisms and a bankruptcy law, which implies benefits for the Bank with respect to the operations and activities entered into with its customers.

Collateral Mechanisms

On June 13, 2002, the Mexican Commerce Code (*Código de Comercio*), the General Law of Negotiable Instruments and Credit Transactions (*Ley General de Títulos y Operaciones de Crédito*), the Mexican Securities Market Law, the Mexican Banking Law, the abrogated Insurance Companies Law (*Ley General de Instituciones y Sociedades Mutualistas de Seguros*), the abrogated Bonding Companies Law (*Ley Federal de Instituciones de Fianzas*) and the General Law of Ancillary Credit Organizations and Activities (*Ley General de Organizaciones y Actividades Auxiliares del Crédito*) were amended with the purpose of providing an improved legal framework for secured lending and, as a consequence, encourage banks to increase their lending activities. Among its provisions, the decree eliminated a prior non-recourse provision applicable to non-possessory pledges (which allowed the creation of a pledge over all the assets used in the main business activity of the debtor, but limited recourse to the applicable collateral) and collateral trusts, to allow creditors further recourse against debtors if proceeds derived from the sale or foreclosure of collateral are insufficient to repay secured obligations; changes to these laws also permit the non-judicial foreclosure of collateral.

Laws regarding the perfection and enforcement of security interests include mechanism for pledging without transferring possession, as well as a common security device known in Mexico as the security trust. All personal property being used in a debtor's main business activity may be pledged, by making only a generic description of such property. The provisions regulating the security trust are similar to those governing pledges of personal property, except they provide that title to the collateral must be held by the trustee.

Also, for security pledges, there are provisions allowing the transfer of title to pledgee of the pledged assets, if agreed by the parties. Under the Mexican Securities Market Law, if the transfer of property over the pledged securities is agreed upon by the parties, the pledge may apply the market value of the pledged securities to the payment of the corresponding obligation in the event of default, without requiring the enforcement of such pledge before a court.

Amendments to Financial Regulations Impacting Banks

The Mexican financial system, consistent with demands from regulators and market participants and developments in other jurisdictions, has committed to address systemic issues resulting from the global financial crisis, such as the enactment of new regulations aimed at improving disclosure standards for derivative transactions.

On July 5, 2010, the Federal Law for Protection of Personal Data Held by Private Persons (*Ley Federal de Protección de Datos Personales en Posesión de Particulares*) was enacted, which requires us to ensure the confidentiality of the information received from clients, including their personal data. We have adapted our processes, procedures and systems as required to implement this law and the supervision of our activities.

On January 9, 2015, the General Rules Applicable to Financial Entities and other Persons that Provide Investment Services (*Disposiciones de Carácter General Aplicables a las Entidades Financieras y otras Personas que Proporcionan Servicios de Inversión*) were published. One of the main purposes of such rules was to establish a sole regulation that contains the rules applicable to brokerage firms, credit institutions and investment advisors,

companies that operate mutual funds and companies or entities that distribute shares of mutual funds. In accordance with the rules, financial entities and investment advisors rendering advisory services in connection with investments shall ensure that any advice, recommendation or suggestion given to the client is reasonable for such client, and consistent with the client's investment profile and the financial product profile.

Climate Change

Due to the nature of the business and the services we provide, there are no significant risks or effects that climate change may have on the Bank's business. However, the Bank considers that climate change is a significant and complex challenge that requires cooperation between individuals, companies and nations.

Other Regulations

Please refer to the section "Risk Factors," in particular to the risk factors related to modifications and reforms to certain laws, including "The recently-enacted reforms to Mexican laws and regulations relating to labor, social security and fiscal matters has required the Bank to modify its employment scheme, and these or any other future reforms could have a material adverse effect on the Bank in the future," "Modifications to the *Banco de México* Law (*Ley de Banco de México*) could result in a decrease in Mexico's credit rating and an increase in interest rates, which could have negative consequences on the Bank's business, financial condition or results of operations," among others.

SUPERVISION AND REGULATION

Our operations are primarily regulated by the Mexican Banking Law, and the rules issued thereunder by the SHCP and the CNBV, as well as rules issued by *Banco de México* and the IPAB. The authorities that supervise our operations are the SHCP, *Banco de México*, the CONDUSEF and the CNBV.

Banking Regulation

The SHCP, either directly or through the CNBV, possesses broad regulatory powers over the banking system. Banks are required to report regularly to the financial regulatory authorities, principally the CNBV and *Banco de México*. Banks must submit their unaudited monthly and quarterly and audited annual financial statements to the CNBV for review, and must publish on their website and in a national newspaper their unaudited quarterly balance sheets and audited annual balance sheets. The CNBV may order a bank to modify or republish such balance sheets. From time to time, we are required to respond to information requests and to also cooperate with regulators in the course of an investigation.

Additionally, banks must publish on their website, among other things:

- the bank's basic consolidated and audited annual financial statements, together with a report containing the management's discussion and analysis of the financial statements and the bank's financial position, including any important changes thereto and a description of the bank's internal control systems;
- a description of the bank's board of directors, identifying independent and non-independent directors and including their resume;
- a description and the total amount of compensation and benefits paid to the members of the board of directors and senior officers during the past year;
- unaudited quarterly financial statements for the periods ending March, June and September of each year, together with any comments thereon;
- any information requested by the CNBV to approve the accounting criteria, specific measures for loan-loss classifications and special registries;
- a detailed explanation regarding the main differences in the accounting used to prepare the financial statements;
- the credit rating of their portfolio;
- the capitalization level of the bank, its classification (as determined by the CNBV) and any modifications thereto;
- financial ratios;
- a brief summary of the resolutions adopted at any meeting of shareholders, of debenture holders, or of holders of other securities or instruments; and
- the bank's bylaws as then in effect.

The CNBV has the authority to grant and revoke authorizations to bank institutions and to impose fines for failing to comply with the provisions of the Mexican Banking Law, or regulations issued thereunder. In addition, *Banco de México* has authority to impose certain fines and administrative sanctions for failure to comply with the provisions of the Law of *Banco de México*, the Law for the Transparency and Regulation of Financial Services (*Ley para la Transparencia y Ordenamiento de los Servicios Financieros*), and regulations and provisions that it promulgates, including violations relating to the regulation of interest rates and fees and the terms of disclosure of fees charged by banks to customers. Violations of specified provisions of the Mexican Banking Law are subject to administrative sanctions and criminal penalties.

The Mexican Banking Law includes a provision for self-correcting irregularities detected by Mexican banks, arising from non-compliance with applicable law.

A Mexican bank may only be dissolved and liquidated, if the CNBV has issued a determination to that effect. Prior to such dissolution and liquidation, the IPAB may provide temporary financial assistance to Mexican banks

having liquidity problems. Additionally, a Mexican bank may grant last resort shareholder-guaranteed loans to banks in such conditions.

The SHCP is authorized to conduct evaluations of Mexican banks. Although guidelines for such evaluations have already been issued, additional rules may be issued in the future. Such evaluations are based upon the size of the banks and their participation in the relevant markets, and will determine whether or not a particular bank is lending to all sectors of the economy (primarily to small- and medium-sized companies). Results of evaluations are required to be made publicly available by the SHCP. Negative results from evaluations may result in corrective measures being ordered, however.

Licensing of Banks

An authorization from the Mexican government is required to organize and operate as a bank. The CNBV, prior agreement of its governing board and favorable opinion of *Banco de México*, has the power to authorize the establishment of new banks, subject to minimum capital requirements, among other things. Approval of the CNBV is also required prior to opening, closing or relocating offices, including branches outside of Mexico, or transfer of assets or liabilities between branches.

Intervention

The CNBV, with the approval of its governing board, may declare managerial intervention (*intervención*) of a banking institution pursuant the Mexican Banking Law (the “**CNBV Intervention**”). In addition, and only if the IPAB provides liquidity to the bank pursuant to applicable law, the governing board of the IPAB may also appoint a “peremptory manager” (*administrador cautelar*).

A CNBV Intervention will only occur when (i) within a calendar the capital ratio of a bank is reduced from a level equal to or above the minimum capital ratio required under Article 50 of the Mexican Banking Law (*Ley de Instituciones de Crédito*) to a level equal to or lower than the minimum fundamental capital required under Article 50 of the Mexican Banking Law (*Ley de Instituciones de Crédito*) and the provisions emanating from it; (ii) the banking institution does not comply with the minimum Capital Ratios required under the Mexican Banking Law and it does not submit itself to the conditional operation regime under Article 29 Bis 2 of the Mexican Banking Law, or (iii) the banking institution defaults with respect to any of the following payment obligations: (a) in the case of obligations in an amount greater than 20,000,000 UDIs or its equivalent: (1) loans granted by other banking institutions, foreign financial institutions or *Banco de México*, or (2) payments of principal or interest on securities issued, that have been deposited in a securities deposit institution; or (b) in the case of obligations in an amount greater than 2,000,000 UDIs or its equivalent, if during two business days (1) one or more participants the amounts due under any compensation process carried out through a clearinghouse or central counterparty, or does not pay three or more checks for such amount, that have been excluded from a clearinghouse for causes attributable to the drawee institution in terms of the applicable provisions, or (2) in the bank windows of two or more branches the banking deposits and cash withdrawals carried out by 100 or more of their customers and such total amount.

If the IPAB granted financial support to a bank pursuant to the Mexican Banking Law, the peremptory manager will be appointed by the IPAB and will assume the authority of the board of directors. The peremptory manager will have the authority to represent and manage the bank with the broadest powers under Mexican law. The appointment of the peremptory manager will be published in the Federal Official Gazette and in two national newspapers, and must be registered in the Public Registry of Commerce of the corresponding domicile.

Amendments to Banking Laws/Support Commercial Banking Institutions

In January 2014, certain amendments to the Mexican Banking Law were enacted by Mexican Congress to reinforce the legal framework to adopt and grant financial support to commercial banking institutions undergoing financial difficulties.

Resolution and Payment of Guaranteed Obligations

Revocation of authorization to operate as a bank

If the CNBV revokes a license to be organized and operating as a banking institution, the IPAB’s Governing Board will determine the manner under which the relevant banking institution shall be dissolved and liquidated in accordance with the Mexican Banking Law. In such a case, the IPAB’s Governing Board may determine to undertake the liquidation through any or a combination of the following transactions: (i) transfer the liabilities and assets of the banking institution in liquidation to another banking institution; (ii) constitute, organize and manage a new banking

institution owned and operated directly by the IPAB, with the exclusive purpose of transferring the liabilities and assets of the banking institution in liquidation; or (iii) any other alternative that may be determined within the limits and conditions provided by the Mexican Banking Law that the IPAB considers as the best and less expensive option to protect the interest of bank depositors.

Causes for Revoking the authorization to organize and operate as a bank

The following are the events upon which the CNBV may revoke a banking license:

- If the banking institution does not commence operations within 30 days from the date on which it is notified of the granting of the license;
- If a shareholder decision is made to request the revocation;
- If the banking institution is dissolved or initiates liquidation;
- If the banking institution (a) does not comply with the minimum corrective measures pursuant to the Mexican Banking Law; (b) does not comply with more than one special corrective measure pursuant to the Mexican Banking Law; or (c) consistently does not comply with an additional special corrective measure set forth in the Mexican Banking Law;
- If the banking institution does not comply with the minimum Capital Ratios required under the Mexican Banking Law and the Mexican Capital Requirements;
- If the banking institution defaults with respect to any of the following payment obligations (a) in the case of obligations in an amount greater than 20,000,000 UDIs or its equivalent: (1) loans granted by other banking institutions, foreign financial institutions or *Banco de México*, or (2) payments of principal or interest on securities issued, that have been deposited with a clearing system, and (b) in the case of obligations in an amount greater than 2,000,000 UDIs, or its equivalent, if during two business days or more, (1) it does not pay its obligations with one or more participants in clearing systems or central counterparts, or (2) it does not pay in two or more of its branches, banking deposits claimed by 100 or more of its customers.
- If the banking institution repeatedly performs prohibited operations according to article 106 of the Mexican Banking Law; and
- If the assets of the banking institution are insufficient to meet its liabilities.

Upon publication of the resolution of the CNBV revoking banking license in the Federal Official Gazette and two newspapers of wide distribution in Mexico and registration of such resolution with the corresponding Public Registry of Commerce, the relevant banking institution will be dissolved and liquidation will be initiated. Upon liquidation of a banking institution, the IPAB shall proceed to make payment of all “guaranteed obligations” of the relevant banking institution, in compliance to the terms and conditions set forth by the Mexican Banking Law, other than those “guaranteed obligations” that have been actually transferred pursuant to Article 186 of the Mexican Banking Law.

Obligations of a banking institution in liquidation that are not considered “guaranteed obligations” pursuant to the IPAB Law, and that are not effectively transferred out of the insolvent banking institution, will be treated as follows:

- term obligations will become due (including interest accrued);
- unpaid principal amounts, interest and other amounts due in respect of unsecured obligations denominated in pesos or UDIs will cease to accrue interest;
- unpaid principal amounts, interest and other amounts due in respect of unsecured obligations denominated in foreign currencies, regardless of their place of payment, will cease to accrue interest and will be converted into pesos at the prevailing exchange rate determined by *Banco de México*;
- secured liabilities, regardless of their place of payment will continue to be denominated in the agreed currency, and will continue to accrue ordinary interest, up to an amount of principal and interest equal to the value of the assets securing such obligations;

- obligations subject to a condition precedent, shall be deemed unconditional;
- obligations subject to a condition subsequent, shall be deemed as if the condition had occurred, and the relevant parties will have no obligation to return the benefits received during the period in which the obligation subsisted; and
- derivatives, repurchase transactions and securities loans will be early terminated and netted after two business days following the publication of the resolution of the CNBV revoking a banking license in the Federal Official Gazette and in two newspapers of wide distribution in Mexico.

Liabilities owed by the banking institution in liquidation will be paid in the following order of preference pursuant to Articles 180 and 241 of the Mexican Banking Law (*Ley de Instituciones de Crédito*): (i) guaranteed or pledged credits, (ii) liquid and enforceable labor liabilities, (iii) tax liabilities, (iv) credits with special privileges, (v) liabilities to the IPAB, as a result of the partial payment of obligations of the banking institution supported by the IPAB in accordance with the Mexican Banking Law; (vi) bank deposits, loans and other liabilities as provided by Article 46, Sections I and II of the Mexican Banking Law, to the extent not transferred to another banking institution, as well as any other liabilities in favor of the IPAB different from those referred to clause (v) above, (vii) any other liabilities other than those referred to in the following clauses, (viii) preferred subordinated debentures, (ix) non-preferred subordinated debentures (such as the Notes), and (x) the remaining amounts, if any, shall be distributed to stockholders.

Financial Support

Determination by the Banking Stability Committee

The Banking Stability Committee (the “BSC,” formerly called the “Financial Stability Committee”), includes representatives of the SHCP, *Banco de México*, the CNBV and the IPAB. In the case that the BSC determines that if a bank were to default on its payment obligations and such default may (i) generate, directly or indirectly, severe negative effects in one or more commercial banks or other financial entities, endangering their financial stability or solvency, and such circumstance may affect the stability or solvency of the financial system, or (ii) put the operation of the payments systems, necessary for development of economic activity, at risk, then the BSC may determine that a general percentage of the amounts of all of the outstanding obligations of the troubled bank that are not considered “guaranteed obligations” under the IPAB Law and guaranteed obligations in amounts equal to or higher than the amount set forth under Article 11 of the IPAB Law (400,000 UDIs per person per entity), be paid as a means to avoid the occurrence of any of such circumstances. Notwithstanding the foregoing, under no circumstance may the transactions referred to in Sections II, IV and V of Article 10 of the IPAB Law (which include transactions such as liabilities or deposits in favor of shareholders, members of the board of directors and certain top level officers, and certain illegal transactions) or the liabilities derived from the issuance of subordinated debentures be covered or paid by the IPAB or any other Mexican governmental agency.

Types of Financial Support

If the BSC makes the determination referred to in the preceding paragraph, then the IPAB’s Governing Board will determine the manner according to which the troubled bank will receive financial support, which may be through either of the following options:

- If the BSC determines that the full amount of all of the outstanding liabilities of the relevant troubled bank institution (guaranteed and non-guaranteed) must be paid, then the financial support may be implemented through (i) capital contributions or (ii) credit support granted by the IPAB in accordance with the Mexican Banking Law, and, in either case, the CNBV shall refrain from revoking the banking license granted to such commercial bank.
- If the BSC determines that less than the full amount of all the outstanding liabilities of the troubled commercial bank (guaranteed and non-guaranteed) must be paid, then the support will consist of transferring the assets and liabilities of such bank to any third party.

Conditional Management Regime

As an alternative to revoking the banking license, the relevant bank may request, with the prior approval of its shareholders, the application of a conditional management regime. This regime may be requested when the Capital Ratio of the relevant bank is below the minimum required pursuant to the Mexican Capitalization Requirements. In

order to qualify for such regime, the relevant commercial bank should (i) deliver to the CNBV a plan for the reconstitution of its capital, and (ii) transfer at least 75% of its shares to an irrevocable trust.

Banking institutions that do not comply with the minimum fundamental capital required under Article 50 of the Mexican Banking Law (*Ley de Instituciones de Crédito*) may not adopt the conditional management regime.

Bank Liquidation Process

According to the amendments to the Mexican Banking Law enacted on January 10, 2014, upon the resolution of the CNBV revoking an authorization to organize and operate as a bank, the declaration will be published in the Federal Official Gazette and two newspapers of wide distribution in Mexican territory and will be registered with the Public Registry of Commerce, the relevant banking institution will be liquidated. The IPAB will be appointed liquidator of the banking institution.

If a banking license is revoked because the assets of the relevant bank are insufficient to meet its liabilities, the IPAB shall undertake the liquidation procedure before a competent Mexican federal court, according to the terms and conditions provided for a court liquidation procedure (*liquidación judicial*) under the Mexican Banking Law, in substitution of the *concurso mercantil* under the Mexican Bankruptcy Law. Moreover, the IPAB will be appointed as receiver (*liquidador judicial*).

The IPAB will carry out the creditor identification process and must comply with the preference for payments of banking institution's debts set forth in Article 214 of the Mexican Banking Law (*Ley de Instituciones de Crédito*).

Capitalization

The minimum subscribed and paid-in capital for banks is set in accordance with three different components: credit risk, market risk and operational risk. Pursuant to the Mexican Banking Law and the General Rules Applicable to Mexican Banks, banks may participate in any of the activities and render the services as provided under the Mexican Banking Law, as well as those permitted under other laws.

In accordance with the capitalization rules, the minimum equity capital required for banks that engage in all banking activities under the Mexican Banking Law is 90,000,000 UDIs.

The capitalization requirements in the General Rules Applicable to Mexican Banks set forth the methodology to determine the net capital (*capital neto*) relative to market risk, risk-weighted assets and operations risk. Under the relevant rules, the CNBV may impose additional capital requirements. The capitalization requirements provide capitalization standards for Mexican banks similar to international capitalization standards, particularly with respect to the recommendations of the Basel Committee on Banking Regulations and Supervisory Practices, or the Basel Committee, which includes the supervisory authorities of twelve major industrial countries.

The General Rules Applicable to Mexican Banks classify Mexican banks in several categories based on their Capital Ratios. The corrective measures referred to below are determined based on the following classifications:

Fundamental Capital or CET1 (CCF)	Tier 1 Capital (CCB)	Net Capital Ratio (ICAP)				
		≥ 10.5% + CBF	≥ 8.0%	≥ 7.0% + CBF	≥ 4.5%	< 4.5%
≥ 7% + CBF	≥ 8.5% + CBF	I	II			
	≥ 7% + CBF	II	II	III		
≥ 4.5%	≥ 8.5% + CBF	II	II			
	≥ 6%	II	II	III	IV	
	≥ 4.5%	III	III	IV	IV	
< 4.5%						V

Where:

ICAP = Net Capital Ratio (*Índice de Capitalización*)

CCB = Tier 1 Capital Ratio (*Coficiente de Capital Básico*)

CCF = Fundamental Capital Ratio (*Coficiente de Capital Básico Fundamental*)

CBF = Capital Supplements (Systemically Important Bank Capital Supplement + Countercyclical Capital Supplement)

For the classification of multiple banking institutions of local systemic importance in categories, the Total Capital Supplement mentioned in the last paragraph of Article 2 Bis 5 of the capitalization rule will also be considered.

The Multiple banking institutions of local systemic importance (D-SIBs) that, according to the previous table, correspond to a classification in category I, will be classified in category II when:

$$ICAP + Z < 10.5\% + SCCS + SCCI + SCN$$

Where:

Z = The percentage that corresponds to the amount of securities and Capital Instruments eligible to constitute the supplement to Total Capital referred to in the last paragraph of Article 2 Bis 5 of these provisions divided by the total RWAs.

SCN = The percentage equivalent to the amount of the supplement to Total Capital referred to in Article 2 Bis 5 of these provisions divided by the total RWAs.

The first phase of this new supplement begins in December 2022 and will be fully implemented in December 2025.

Article 121 of the Mexican Banking Law provides that, in the exercise of its supervisory duties, the CNBV, through general provisions approved by its board of governance, will classify banking institutions based on their compliance with the provisions of the Mexican Capitalization Requirements, which may take into account Capital Ratios that reflect the degree of stability and solvency of a bank.

Article 122 of the Mexican Banking Law provides that, if a Mexican bank does not comply with the minimum Capital Ratios required pursuant to the Mexican Capitalization Requirements, such bank must implement the corrective measures ordered by the CNBV, including:

- (a) informing the bank's board of directors of its classification, based on its Capital Ratios, and submit a detailed report containing an evaluation of the bank's overall financial status and its level of compliance with applicable regulations and the main financial indicators on the bank's stability and solvency; the bank shall also provide written notice to the general director and the chairman of the board of directors of the bank's regulated holding company (*sociedad controladora del grupo financiero*) with respect to such events and the status thereof;

- (b) if the bank is not in compliance with (i) any corrective measures under Article 122 of the Mexican Banking Law or (ii) the minimum Capital Ratios required pursuant to the Mexican Capitalization Requirements (Section V of Article 28 of the Mexican Banking Law), the CNBV will give notice to the bank, and the bank, within a period not to exceed seven (7) Business Days, shall file with the CNBV, for its approval, a capital recovery plan to increase the bank's Capital Ratios; the bank's capital recovery plan shall be approved by such bank's board of directors before it is submitted to the CNBV; and the CNBV, through its board of governance, will determine whether the recovery plan is approved, within a period not to exceed sixty (60) calendar days from the aforementioned filing;
- (c) suspending, in whole or in part, any payment of dividends to its shareholders, as well as any mechanism or act for the making of any distributions or the granting of any economic benefits to shareholders; such measure shall apply to the bank's regulated holding company (sociedad controladora del grupo financiero) and other financial entities of the financial group (grupo financiero);
- (d) suspending, in whole or in part, any share repurchase programs, including those of the bank's regulated holding company (sociedad controladora del grupo financiero);
- (e) deferring or canceling, in whole or in part, payment of interest and, in the event of deferring or canceling the payment of principal on outstanding subordinated debt, and, if applicable, exchanging outstanding convertible subordinated debt into shares of the bank in the amount necessary to cover the capital deficiency if ordered by the CNBV; these corrective measures shall be applicable to subordinated debt considered part of the bank's Tier 1 Capital (*capital básico*) or Tier 2 Capital (*capital complementario*); if the bank issues subordinated debt, the bank is obligated to include in the documentation evidencing such debt, in the applicable indenture and in the applicable offering document, that such deferral of payment of principal or deferral and cancellation of payments of interest, as the case may be, shall apply upon the occurrence of certain events as provided in the General Rules Applicable to Mexican Banks and that the implementation of such measures shall not be considered a default under the documents evidencing such debt;
- (f) suspending payment of any extraordinary benefits and bonuses that are not a component of the ordinary salary of the general director or any officer within the next two levels of seniority, and suspending the granting of new benefits to the general director and the officers mentioned above until the bank complies with the minimum Capital Ratios set forth under the Mexican Capitalization Requirements;
- (g) abstaining from increasing the outstanding amounts of any loans granted to any person who is a related party of the bank under Article 73 of the Mexican Banking Law; and
- (h) any other corrective measures that are provided by the General Rules Applicable to Mexican Banks.

Article 122 of the Mexican Banking Law further provides that:

- (a) If a Mexican bank complies with the minimum Capital Ratios required pursuant to the Mexican Capitalization Requirements, but any of its Capital Ratios is not equal to or greater than the minimum Capital Ratios for a bank not to be subject to any corrective measures, such bank must implement certain corrective measures ordered by the CNBV, including, among others, (A) informing the bank's board of directors of its classification, based on the Capital Ratios thereof and submitting a detailed report containing an evaluation of the bank's overall financial status and its level of compliance with applicable regulations including the principal regulatory ratios, that reflect the bank's degree of stability and solvency (together with any determinations or indications made by any of the CNBV or *Banco de México*) and providing written notice to the general director and the chairman of the board of directors of the bank's regulated holding company (sociedad controladora del grupo financiero) with respect to such events and the status thereof; (B) abstaining from entering into any transaction that may decrease the bank's Capital Ratios below the Mexican Capitalization Requirements; and (C) any other corrective measures ordered by the CNBV.
- (b) Regardless of a bank's capitalization level, the CNBV may order the implementation of additional special corrective measures, including, among others: (A) requiring compliance with additional

corrective measures that the bank will be required to carry out to avoid a decrease of its Capital Ratios; (B) requiring special audits to be performed by special auditors in connection with specific matters; (C) abstaining from increasing the salaries and benefits of all officers and employees of the bank, except for any changes in salary previously agreed on and subject to the officers' and employees' labor rights; (D) removing officers, directors, statutory auditors or external auditors or appointing any persons to such positions; or (E) any other measures ordered by the CNBV, based on its authority to inspect and supervise banking institutions.

- (c) If a Mexican bank does not comply with any of the Capital Ratio requirements pursuant to the Mexican Banking Law and the Mexican Capitalization Requirements, the CNBV may order the bank to suspend any payment of dividends or other distributions to its shareholders.
- (d) Corrective measures will not be applicable to Mexican banks with Capital Ratios equal to or greater than the minimum Capital Ratios required by the Mexican Capitalization Requirements.
- (e) The Mexican Banking Law and the General Rules Applicable to Mexican Banks classify Mexican banks in categories from Class I through Class V based on their Capital Ratios for Total Net Capital (*capital neto*), Tier 1 Capital (*capital básico*) and Fundamental Capital (*capital básico fundamental*); corrective measures are imposed based on such classification, starting at the time a bank is categorized as Class II.
- (f) Article 122 of the Mexican Banking Law specifies that if a bank does not satisfy the Capital Ratios required to be classified as Class I pursuant to the Mexican Capitalization Requirements, the bank must implement the corrective measures ordered by the CNBV. Currently, the minimum Capital Ratios required to be classified as Class I are: (i) 10.5% in the case of the Total Net Capital (*capital neto*), which includes the Capital Conservation Buffer, (ii) 8.5% in the case of Tier 1 Capital (*capital básico*), which includes the Capital Conservation Buffer, and (iii) 7% in the case of Fundamental Capital (*capital básico fundamental*), which includes the Capital Conservation Buffer, plus, in each case, any other applicable Capital Supplement.

If the minimum Capital Ratios to be classified as Class I are not satisfied, Mexican banks shall be classified as Category II, III, IV or V, as the case may be, according to the General Rules Applicable to Mexican Banks then in effect.

The General Rules Applicable to Mexican Banks further provide that corrective measures applicable to Mexican banks classified in Categories II, III, IV or V include, among other things, requiring a bank to suspend or cancel payment of interest, defer or cancel payment of any principal on outstanding subordinated debt or exchange outstanding convertible subordinated debt into shares of the bank in the amount necessary to cover the capital deficiency; if the bank issues subordinated debt, a bank must include in the relevant debt documentation, including in the applicable indenture and offering document, that such suspension or cancellation of payment of interest and deferral or cancellation of payment of principal shall apply to subordinated debt if a bank is classified in Category II, III, IV or V and that the implementation of such measures shall not be considered a default under the relevant debt documentation.

The General Rules Applicable to Mexican Banks require Category I Mexican banks to maintain Capital Ratios equal to or exceeding: (i) 10.5% in the case of the Total Net Capital (*capital neto*), which includes the Capital Conservation Buffer, (ii) 8.5% in the case of Tier 1 Capital (*capital básico*), which includes the Capital Conservation Buffer, and (iii) 7% in the case of Fundamental Capital (*capital básico fundamental*), which includes the Capital Conservation Buffer, plus, in each case, any other applicable Capital Supplement.

Mexican banks that are determined by the CNBV to be of systemic importance, in light of the impact that their default may cause to the Mexican financial system, the Mexican payment system or the Mexican economy, are required by the CNBV to constitute an additional capital supplement, as determined from time to time (the “**Systemically Important Bank Capital Supplement**”). The CNBV also has the authority to require countercyclical capital supplements from any and all Mexican banks, designed to cover adverse economic cycles, if the aggregate financing received by the Mexican private sector grows at a higher level as compared to the level of growth of the Mexican economy (the “**Countercyclical Capital Supplement**” and, together with the Systemically Important Bank Capital Supplement and any other additional capital supplement that may be required to be maintained and comprised of Fundamental Capital pursuant to the Mexican Capitalization Requirements, the “**Capital Supplements**”).

In June 2021, modifications to the capitalization rules were published, which require that Banking Institutions of local systemic importance must maintain a supplement to Total Capital, which must be additional capital necessary to comply with the minimum Capitalization Ratio, this in accordance with article 2 Bis 117 ñ. It is necessary for the Bank to implement this supplement to Total Capital in 4 annual equal parts, beginning on December 31, 2022 and ending on December 31, 2025.

The CNBV reconfirmed our status as a Grade IV bank of systemic importance on May 27, 2022, meaning that we are required by the CNBV to have a Systemically Important Bank Capital Supplement of 1.50%. Also, an initial Countercyclical Capital Supplement of 0.00% was imposed. The Systemically Important Bank Capital Supplement is calculated as 1.50% of our total Tier 1 Capital and was required to be implemented over a four-year period in four equal parts, each to be constituted in December of each year, starting December 31, 2016. As of December 31, 2021, our Capital Supplement was 1.5% of our Tier 1 Capital.

As a result of the foregoing, the minimum Capital Ratios applicable to us as of the dates indicated below, including, in each case, the Capital Conservation Buffer, the Systemically Important Bank Capital Supplement, the Countercyclical Capital Supplement and the supplement to Total Capital, to remain classified as Class I pursuant to the Mexican Capitalization Requirements are as follows:

Minimum Capital Ratios	December 31,		
	2022	2021	2020
(i) Total Net Capital (<i>capital neto</i>).....	13.63%	12.00%	12.00%
(ii) Tier 1 Capital (<i>capital básico</i>).....	10.00%	10.00%	10.00%
(iii) Fundamental Capital (<i>capital básico fundamental</i>).....	8.50%	8.50%	8.50%

As of December 31, 2022, our Capital Ratios were (i) 19.19% in the case of Total Net Capital, (ii) 16.83% in the case of Tier 1 Capital, and (iii) 16.83% in the case of Fundamental Capital. As of December 31, 2021, our Capital Ratios were (i) 19.16% in the case of Total Net Capital, (ii) 16.67% in the case of Tier 1 Capital, and (iii) 16.67% in the case of Fundamental Capital.

Aggregate net capital consists of Tier 1 Capital (which, in turn, consists of Core Equity Tier 1 Capital and instruments that are not common equity, but are eligible to be included in such tier (“**Additional Capital Tier 1**”)) and Tier 2 Capital. The Mexican Capitalization Requirements include among the Core Equity Tier 1 Capital, mainly, paid-in capital, which represents the most subordinated right to collect in case of liquidation of a credit institution, which are not due and do not grant reimbursement rights, profits (mainly including retained profits), and capital reserves, and subtract from such Core Equity Tier 1 Capital, among other things, certain subordinated debt instruments, issued by financial and non-financial entities, securities representing residual parts of portfolio securitization, investments in the equity of venture-capital funds and investments in or credits to related companies, reserves pending creation, loans and other transactions that contravene applicable law, and intangibles (including goodwill). Additional Capital Tier 1 is comprised of preferential shares, regarding which the issuer has the right to cancel the dividend payments, and subordinated debt instruments, which are not subject to a due date or forced conversion, regarding which it is possible to cancel the interest payments and which may become shares of a credit institution or a controlling entity or are subject to cancellation (when capitalization problems arise).

The complementary part of basic capital (Tier 2) comprises capitalization instruments, as long as such capitalization instruments are subordinated to deposits and any other debt of the credit institution, do not have any specific guarantee, have a term of at least five years and are convertible into shares at their maturity date, and the total allowable reserves without total expected losses up to an amount that does not exceed 0.6% of weighted assets by IRB credit risk and 1.25% of weighted assets by standardized approach of credit risk. These instruments shall be included as capital based on their maturity date: 100% if the due date exceeds five years, 80% if the due date exceeds four years but is less than five years, 60% if the due date exceeds three years but is less than four years, 40% if the due date exceeds two years but is less than three years, 20% if the due date exceeds one year but is less than two years, and 0% if the due date is less than one year.

Every Mexican bank must create certain legal reserves (*fondo de reserva de capital*), that are considered to be part of Tier 1 capital. Banks must separate and allocate 10.0% of their net income to such reserve each year until the legal reserve equals 100.0% of their paid-in capital (without adjustment for inflation). The remainder of net income, to the extent not distributed to shareholders as dividends, is added to the retained profits account. Under Mexican law, dividends may not be paid out against the legal reserve. As of December 31, 2022, we had set aside Ps.6,901 million in legal reserves compared to paid-in capital of Ps.24,143 million (without adjustment for inflation).

Corrective Measures

Pursuant to the Mexican Capitalization Requirements, the CNBV classifies Mexican banks in several categories based on their Capital Ratios and orders corrective measures to prevent and correct problems that may affect the stability or solvency of banks if a bank fails to meet any of the minimum required Capital Ratios.

The Mexican Banking Law and the General Rules Applicable to Mexican Banks establish the minimum corrective and special additional measures that banks must fulfill according to the category in which they are classified based on their capital. These corrective measures are designed to prevent and, when necessary, correct the operations of the banks that could negatively affect their solvency or financial stability. The CNBV is required to notify the relevant bank in writing of the corrective measures that it must observe, within five business days after *Banco de México* has notified the CNBV of the capitalization ratio of the bank, as well as verify the bank's compliance with the corrective measures imposed. Class I banks are exempted from any corrective measures, but banks in the remainder of the categories may be subject to specific corrective measures. Regardless of the Capital Ratio of the banks, the CNBV may order the implementation of additional and special corrective measures.

On July 26, 2010, the group of governors and heads of supervision of the Basel Committee, reached broad agreement on the overall design of a capital and liquidity reform package for internationally active banking organizations around the world, known as Basel III, which includes, among other things, the definition of capital, the treatment of counterparty credit risk, the leverage ratio and the global liquidity standard. On September 12, 2010, the Basel Committee announced a substantial strengthening of existing capital requirements in connection with Basel III. The full text of the Basel III rules and the results of a quantitative impact study to determine the effects of the reforms on banking organizations were published on December 16, 2010. The Basel III rules for capitalization were implemented in Mexico through an amendment to the General Rules Applicable to Mexican Banks published in the Federal Official Gazette on November 28, 2012, effective as of January 1, 2013.

Reserve and Compulsory Deposit Requirements

The compulsory reserve requirement is one of the monetary policy instruments used as a mechanism to control the liquidity of the Mexican economy to reduce inflation. The objective of *Banco de México*'s monetary policy is to maintain the stability of the purchasing power of the peso and in this context, to maintain a low inflation level. Given the historic inflation levels in Mexico, the efforts of *Banco de México* have been directed towards a restrictive monetary policy. Under this policy, *Banco de México* has elected to maintain a short-term financial creditor stance with respect to the Mexican financial money markets, where *Banco de México* compensates liquidity deficits through daily operations in the money market providing adequate liquidity and stability to these markets.

In order to manage its maturity exposures to the Mexican financial markets, *Banco de México* has been extending the maturities of its liabilities for longer terms to avoid the need for continuing refinancing of its liabilities. Those liabilities have been restructured into voluntary and compulsory deposits (*Depósitos de Regulación Monetaria*), and into investment securities such as longer-term government bonds (Bonds) and monetary regulatory bonds (BREMS). At the same time, *Banco de México* has elected to hold short-term assets, thus allowing it the ability readily to refinance its positions of assets and reduce its maturity exposure to the financial markets.

Banco de México may impose on Mexican commercial banks reserve and compulsory deposits from time to time. The amount of the deposit that each bank has to make is determined based on each bank's pro rata share of total Mexican financial institution time deposits allocated and registered as of certain date. Such compulsory deposits have an indefinite term. During the time, these reserves are maintained on deposit with *Banco de México*, each banking institution receives interest on such deposits every 28 days. *Banco de México* provides advance notice of the date and the procedure to withdraw the balance of these compulsory deposits at such time, if any, that the compulsory deposit reserves are suspended or terminated.

To promote the sound development of the financial system and improve monetary policies, on May 12, 2016, *Banco de México* published in the Federal Official Gazette the rules for auctions of *Bonos de Regulación Monetaria Reportables* ("**BREMS R**"), as an alternative for the banking institutions to comply with the compulsory deposit reserves (through the purchase of BREMS R). The BREMS R may only be acquired by Mexican banks, through auctions carried out by *Banco de México* or through *reportos* (repurchase transactions). Thus, there is no secondary market for BREMS R. The BREMS R maintained by banking institutions may only be sold directly or through *reportos* to *Banco de México* or to other banking institutions. Furthermore, on June 13, 2019, *Banco de México* allowed, through Bulletin 9/2019, banking institutions to use its BREMS R to secure overdrafts (*sobregiros*) of their sole accounts (*cuenta única*) maintained with *Banco de México*.

Classification of Loans and Allowance for Loan Losses

The Loan Classification and Rating Rules established in the General Rules Applicable to Mexican Banks, provide a methodology for classifying (i) consumer loans (i.e., each of the exposures of credit cards and loans to individuals, divided into separate groups) that are considered major factors (a) for the exposure of credit cards, the probability of default and potential losses, and (b) for loans to individuals, the probability of non-payment, potential losses (taking into account the guarantee received), and credit exposure (net of the reserves created), (ii) mortgage loans (i.e., residential, including loans for construction, remodeling or improvements), considering as main factors periods of non-payment, the possibility of default and possible losses (taking into account the collateral and guarantees received), and (iii) commercial loans, based primarily on an assessment of the borrower’s ability to pay off their loan (including country risk, financial risk, industry risk history and payments) and an evaluation of the guarantees and related guarantees. Based on this methodology, the percentage of reserves required is determined. The Loan Classification and Rating Rules also allow banks, subject to the prior approval of the CNBV, to develop and adopt specific internal procedures and methodologies within certain parameters to qualify the loans in their portfolios.

The Loan Classification and Rating Rules require Mexican banks to rate 100.0% of their commercial loan portfolio at the end of each month. The classification of mortgage and consumer loans must be made monthly and reported to the CNBV.

The allowance for credit losses for our commercial loan portfolio is calculated mainly based on the classification of the loans in the established categories. To calculate our commercial loan loss reserve, the Loan Classification and Rating Rules require that we follow a methodology that incorporates an assessment of the borrower’s ability to repay their loan and the guarantees and guarantees related to the loan rating analysis to estimate a probable loss and define the percentage of necessary reserves. The Loan Rating and Classification Rules allow us to use our own methodology following certain parameters to assign a risk rating to each borrower. The CNBV approved our internal methodology in April 2014 for the portfolios of companies and large companies. Although there is an internal methodology, as of December 31, 2022, we applied the methodology prescribed by the CNBV, which requires that we classify 100% of the aggregate balance of our business loans, including all loans with an outstanding balance equal to or greater than 14,000,000 UDI, at the date of classification. Commercial loans must, at the same time, be classified by sector as loans with financial entities, states and municipalities or investment projects or by volume of sales as small, medium or large companies. Once we have this classification, it is expected that we calculate the expected loss as a result of the probability of default, the severity of the loss and the exposure in default, based on the parameters established by the CNBV in the particular annexes (21, 22, 23 and 24) of the Single Bank Agreement. If our analysis of the classification of a commercial loan changes from one period to another, then the calculation of the amount of our credit loss reserve is adjusted accordingly.

The Loan Classification and Rating Rules establish the following categories corresponding to levels of risk and set forth procedures for the grading of commercial loans: Grade “A” loans, representing minimal risk of non-payment; Grade “B” loans, represent low risk loans; Grade “C” loans, representing loans with moderate risk; Grade “D” loans, represent high risk loans; and Grade “E” loans, representing non-collectible loans.

Commercial Loans

We classify each loan in our commercial loan portfolio based on the following default probability percentages:

Percentage of expected loss	Risk Level
0.000% to 0.90%	A1
0.901% to 1.5%	A2
1.501% to 2.0%	B1
2.001% to 2.50%	B2
2.501% to 5.0%	B3
5.001% to 10.0%	C1
10.001% to 15.5%	C2
15.501% to 45.0%	D
Greater than 45.01%	E

We record loan loss allowances for individual loans on a monthly basis, and apply the results of the classification monthly to the balance of the loan recorded on the final day of each month.

The loan loss reserves are held in a separate account on our balance sheet and all write-offs of uncollectible loans are charged against this reserve. Mexican banks are required to obtain authorization from their boards of directors to write off loans. In addition, Mexican banks are required to inform the CNBV after such write-offs have been recorded.

The determination of the allowance for loan losses, particularly for commercial loans, requires management's judgment. The loan loss reserve calculation that results from using the estimated and prescribed loss percentages may not be indicative of future losses. Differences between the estimate of the loan loss reserve and the actual loss will be reflected in our financial statements at the time of charge-off.

Because of the changing conditions of our borrowers and the markets in which we operate, it is possible that significant adjustments to the loan loss reserve for changes in estimates of the collectability of loans will be made in the short term.

Consumer Revolving Loans (Including Credit Cards)

Our internal advanced model for the classification of consumer revolving loans (including credit cards) was certified by the CNBV in June 2011, with our most recent annual reauthorization approved in October 2020.

We determine the allowance for loan losses based on the following criteria:

- (a) Probability of default: Based on variables, such as portfolio type, account aging, admission tool or the behavior of loans with at least three outstanding payments, together with a 100% rating for loans with three or more outstanding payments.
- (b) Severity of loss: Calculated based on variables like portfolio type, balance aging and noncompliance period.
- (c) Exposure: Determined according to the credit limit and current balance.

The allowance made according to the following percentages:

Percentage of expected loss	Risk Level
0.00% to 3.0%	A1
3.01% to 5.0%	A2
5.01% to 6.5%	B1
6.51% to 8.0%	B2
8.01% to 10.0%	B3
10.01% to 15.0%	C1
15.01% to 35.0%	C2
35.01% to 75.0%	D
Greater than 75.01%	E

Consumer Non-Revolving Loans (Excluding Credit Card Loans)

We determine the allowance for credit losses for our consumer loan portfolio by applying specific percentages to the number of billing periods with payments in arrears as of the classification date. These billing periods can be weekly, biweekly or monthly. Additionally, we assign risk ratings from the credit losses for our consumer loan portfolio based on the following percentages according to the Loan Classification and Rating Rules:

Percentage of expected loss	Risk Level
0.00% to 2.0%	A1
2.01% to 3.0%	A2
3.01% to 4.0%	B1
4.01% to 5.0%	B2
5.01% to 6.0%	B3
6.01% to 8.0%	C1
8.01% to 15.0%	C2
15.01% to 35.0%	D
Greater than 35.01%	E

Residential Mortgage Loans

Our internal advanced model for the classification of residential mortgage loans was certified by the CNBV in November 2018, with our most recent annual reauthorization approved in August 2020.

We determine the allowance for loan losses based on the following criteria:

- Probability of default: Based on variables, such as portfolio type, account aging, admission tool or the behavior of loans with at least three outstanding payments, together with a 100% rating for loans with three or more outstanding payments.
- Severity of loss: Calculated based on variables like portfolio type, balance aging and noncompliance period.
- Exposure: Determined according to the credit limit and current balance.

The following table shows the degree of risk to classify mortgage credits from their level of expected loss.

Percentage of expected loss	Risk Level
0.000% to 0.50%	A1
0.501% to 0.75%	A2
0.751% to 1.00%	B1
1.001% to 1.50%	B2
1.501% to 2.00%	B3
2.001% to 5.00%	C1
5.001% to 10.0%	C2
10.001% to 40.00%	D
Greater than 40.001%	E

Liquidity Requirements for Foreign Currency

Pursuant to Bulletin 3/2012 regulation of *Banco de México*, the liquidity requirement for foreign currency-denominated liabilities, or the liquidity coefficient in foreign currency, requires Mexican banks to maintain liquid assets, denominated in foreign currencies, equal to or greater than (i) the maximum excess between liabilities to assets for different gaps (1 day, 1 to 8 days, 1 to 30 days and 1 to 60 days) plus (ii) the sum of the excess between liabilities to assets for each day multiplied by a factor specified in the bulletin, for each day to the 60 days horizon.

Banks must have sufficient liquid assets to meet their obligations for the next 60 days.

Banco de México defines liquid assets as those assets in foreign currency that are not granted as collateral, loan, repurchase or that have not been used in any other similar operation that limits their free availability, as follows:

- U.S. dollar-denominated cash or cash denominated in any other currency freely convertible, and with no transfer restrictions, to U.S. dollars;
- U.S. dollar deposits with *Banco de México*;
- treasury bills, treasury bonds and treasury notes issued by the United States government;
- one to seven-day term deposits in foreign financial institutions rated at least P-2 by Moody's or A-2 by S&P;
- investments in mutual funds or companies identified by *Banco de México* upon the bank's request;
- unused lines of credit granted by foreign financial institutions rated at least P-2 by Moody's or A-2 by S&P, subject to certain requirements; and
- foreign currency-denominated deposits made with foreign financial institutions rated P-2 by Moody's or A-2 by S&P that may be drawn against on demand or on two-day notice.

Banks must report this requirement on a daily basis to *Banco de México*.

Mexican Banking Regulation has incorporated Basel III best practices for liquidity risk, so Banks must report the *Coficiente de Cobertura de Liquidez* ("CCL") on a daily basis and also publish the average quarterly CCL. This measure is similar to LCR from Basel. The regulation establishes a minimum level for CCL of 100%.

Foreign Currency Liabilities Regulation

In addition, Regulation 3/2012 establishes that the total liabilities denominated or indexed in foreign currencies of a bank, its subsidiaries and foreign agencies are limited to 1.83 times the amount of its Tier 1 Capital.

Lending Limits

In accordance with the General Rules Applicable to Mexican Banks, restrictions relating to the diversification of a bank's financing transactions are determined in accordance with the bank's compliance with capitalization requirements. For a bank with a:

- Capitalization ratio greater than 8.0% and up to 9.0%, the maximum financing exposure to a person or a group of persons representing common risk to the bank is limited to 12.0% of the bank's basic capital.
- Capitalization ratio greater than 9.0% and up to 10.0%, the maximum financing exposure to a person or a group of persons representing common risk to the bank is limited to 15.0% of the bank's basic capital
- Capitalization ratio greater than 10.0% and up to 12.0%, the maximum financing exposure to a person or a group of persons representing common risk to the bank is limited to 25.0% of the bank's basic capital.
- Capitalization ratio greater than 12.0% and up to 15.0%, the maximum financing exposure to a person or a group of persons representing common risk to the bank is limited to 30.0% of the bank's basic capital
- Capitalization ratio greater than 15.0%, the maximum financing exposure is limited to 40% of the bank's basic capital.
- As of December 31, 2022, the Capitalization ratio of the Bank was 19.2%.

Any financing that has unconditional and irrevocable guarantees, covering the principal and accessories of such financing, granted by a bank or a financial institution from abroad that has a minimum investment grade rating and is established in a country that is part of the Organization for the Cooperation and Economic Development or the European Community, as well as those guaranteed with securities issued by the Mexican government, or with cash, may exceed the maximum limit applicable to the institution in question, but in no case shall they represent more than 100% of the basic capital of such bank or financial institution.

An additional exception is for financing granted to multi-purpose financial corporations in respect of which the accrediting institution has at least 99% of its capital stock, may also exceed the maximum limit applicable to the institution in question, but in no case shall they represent more than 100% of their basic capital.

Additionally, banking institutions must ensure that the sum of the financing granted to the 3 largest debtors does not exceed 100% of the basic capital of the banking institution. Financings granted exclusively to multiple banking institutions and the financings granted to the entities and organizations that make up the Federal Public Parastatal Administration, including public trusts, as well as the state's productive companies, do not count towards this limit.

Funding Limits

In accordance with the General Rules Applicable to Mexican Banks, Mexican banks are required to diversify their funding risks. In particular, a Mexican bank is required to notify the CNBV on the business day following its receipt of funds from a person or a group of persons acting in concert that represent, in one or more funding transactions, more than 100% of a bank's Tier 1 Capital. As of December 31, 2022, none of our liabilities to a person or group of persons exceeded the 100% threshold.

Related Party Loans

Pursuant to the Mexican Banking Law, the total amount of the transactions with related parties may not exceed 35% of the bank's Tier 1 capital. For the case of loans and revocable credits, only the disposed amount will be counted. See "Related Party Transactions—Operations to Related Parties."

Foreign Currency Transactions

Banco de México regulations govern transactions by banks that are denominated in foreign currencies. Mexican banks may, without any specific additional approval, engage in spot foreign exchange transactions (*i.e.*, transactions having a maturity not exceeding four business days). Other foreign currency transactions are deemed derivative transactions and require approvals as discussed below. At the end of each trading day, banks are generally obligated to maintain a balanced foreign currency position (both in the aggregate and by currency). However, short and long positions are permitted in the aggregate, so long as such positions do not exceed 15% of a bank's Tier 1 Capital. In addition, Mexican banks must maintain certain minimum liquidity, prescribed by regulations issued by *Banco de México*, in connection with maturities of obligations denominated in foreign currencies (as discussed under “—Liquidity Requirements for Foreign Currency-Denominated Liabilities” above).

Derivative Transactions

Certain *Banco de México* rules apply to derivative transactions entered into by Mexican banks. Mexican banks are permitted to enter into swaps, credit derivatives, futures forwards and options with respect to the following underlying assets:

- specific shares, groups of shares or securities referenced to shares, that are listed in a securities exchange;
- stock exchange indexes;
- Mexican currency, foreign currencies and UDIs;
- inflation indexes;
- nominal and real interest rates, including those referring to debt instruments an index referring to such rates;
- loans and other advances;
- yellow corn (*maíz*), wheat, soybeans, sugar, rice, sorghum, cotton, oats, coffee, orange juice, cacao, barley, bovine and porcine livestock, milk, canola, soy oil and soy paste, lean value hog carcasses, natural gas, heating oil, gasoline, gas oil, crude oil, aluminum, copper, nickel, platinum, lead and zinc;
- gold or silver; and
- futures, forwards, options and swaps with respect to the underlying assets referred to above.

Mexican banks require an express general approval, issued in writing by *Banco de México* to enter into, as so-called intermediaries, into derivative transactions, with respect to each class or type of derivative. Mexican banks that have not received the relevant general approval, would require a specific approval from *Banco de México* to enter into such derivative transactions (or even if in possession of such general approval, to enter into derivative transactions with underlying assets different from the assets specified above). Mexican banks (and not other financial institutions) may enter into credit derivatives such as total return swaps and credit default swaps, if expressly approved by *Banco de México*. Mexican banks may, however, enter into derivatives without the authorization of *Banco de México*, if the exclusive purpose of such derivatives is to hedge the relevant bank's existing risks. Authorizations may be revoked if, among other things, the applicable Mexican bank fails to comply with the Mexican Capitalization Requirements, does not timely comply with reporting requirements, or enters into transactions that contravene applicable law or sound market practices.

Banks that execute derivative transactions with related parties or with respect to underlying assets of which the issuer is a related party, are subject to lending limits and other requirements generally specified in connection with related party transactions, set forth in Mexican Banking Law.

Institutions may collateralize derivative transactions through cash deposits, receivables and/or securities of its portfolio. In the case of derivative transactions that take place in over-the-counter markets, collateral may be granted only when the counterparties are credit institutions, brokerage firms, foreign financial institutions, mutual funds, mutual funds manager of pension funds and any other counterpart authorized by *Banco de México*. Mexican banks are required to periodically inform their board of directors with respect to the derivatives entered into, and whether or not the Mexican bank is in compliance with limits imposed by the board of directors and any applicable committee. Mexican banks must also inform *Banco de México* periodically of derivative transactions entered into and whether

any such transaction was entered into with a related party. The counterparties in respect of derivatives transactions entered into by Mexican banks, must be other Mexican banks, Mexican financial entities authorized to enter into such derivatives by *Banco de México* or foreign financial institutions. Derivatives must be entered into pursuant to master agreements that must include international terms and guidelines, such as International Swaps and Derivatives Association (“ISDA”) master agreements. As an exception to applicable rules, Mexican banks may pledge cash, receivables and securities to secure obligations resulting from their derivative transactions.

We carry out swaps, futures forwards and options related to pesos and foreign currencies in the underlying assets described above, as well as credit derivatives related to interest rates, except commodities (yellow corn, wheat, soybean, gold, silver, etc.).

Repurchase Operations and Securities Lending

Under a bulletin issued by *Banco de México*, Mexican banks may enter into repurchase operations with Mexican and foreign counterparts. Repurchase operations may be entered into in respect of bank securities, Mexican government securities, debt securities registered with the CNBV and certain foreign securities. Repurchase operations must be entered into under master agreements, such as the master agreements of the International Securities Market Association and the Public Securities Association. Collateral may be provided in connection with repurchase operations.

Banco de México has also authorized Mexican banks to participate in securities lending activities on terms similar to those applicable to repurchase operations.

Limitations on Investments in Other Entities

Under the Financial Groups Law, members of a financial group may not directly or indirectly own capital stock of their own financial group holding company, unless they hold such stock as institutional investors under the Financial Groups Law. Institutional investors under the Financial Groups Law are insurance and bond companies that invest their technical reserves, investment funds and pension funds. In addition, members of a financial group may not extend credit in connection with the acquisition of their capital stock, the capital stock of their financial group holding company or the capital stock of other subsidiaries of their financial group holding company. Without the prior approval of the SHCP (which shall take into consideration the opinions of *Banco de México* and the primary Mexican regulatory commission supervising the financial entity), and subject to certain exceptions, members of a financial group may not accept as collateral shares of stock of Mexican financial institutions. Mexican banks may not acquire or receive as collateral, certain securities issued by other Mexican banks in authorization from the SHCP are required prior to acquisition of shares of capital stock of non-Mexican financial entities.

In addition, Mexican Banking Law imposes certain restrictions on investments by Mexican banks in equity securities of companies engaged in non-financial activities. Mexican banks may own equity capital in such companies in accordance with the following guidelines: (i) up to 5.0% of the capital of such companies at any time; (ii) more than 5.0% and up to 15.0% of the capital of such companies for a period not to exceed three years, upon prior authorization of a majority of the members of each class of the bank’s board of directors; and (iii) for higher percentages and for longer periods, or in companies engaged in new long-term projects or carrying out development related activities, with prior authorization of the CNBV. The total of all such investments made by a bank may not exceed 30.0% of such Tier 1 Capital.

Restrictions on Liens and Guarantees

Under the Mexican Banking Law, banks are specifically prohibited from (i) pledging their properties as collateral (except when pledging collection rights or securities in transactions with *Banco de México*, development banks, public federal trust and the IPAB or if the CNBV so authorizes or as described above with respect to derivative transactions, securities lending and repurchase transactions) and (ii) guaranteeing the obligations of third parties, except, generally, in connection with letters of credit and bankers’ acceptances.

Bank Secrecy Provisions; Credit Information Companies (Credit Bureaus)

Pursuant to the Mexican Banking Law, a Mexican bank may not provide any information relating to the identity of its customers or specific deposits, services transactions to any third parties (including any purchaser, underwriter, or broker or holder of any of the bank’s securities) other than (i) the depositor, debtor, accountholder or beneficiary, settlor, and their legal representatives or attorneys-in-fact, to have the account or to intervene in the operation or service (ii) judicial authorities by virtue of trial proceedings in which the accountholder, or the settlor,

beneficiary, trustee, principal, or agent, is a defendant; (iii) banking institutions in the cases in which they are requested by the following authorities: the Attorney General of the Republic, the attorney general of the states and Mexico City, the Attorney General of Military Justice, the Mexican federal tax authorities for tax purposes, the SHCP for purposes of the provisions of Article 115 of Mexican Banking Law, the Federal Treasurer, the Federal Auditor (*Auditoría Superior de la Federación*), to exercise its review and inspection authorities, the secretary and the undersecretaries of the Ministry of Public Administration and the Unit of Control of the Resources of the Political Parties. Applications must be made with the correct legal basis and through CNBV.

The Mexican Banking Law authorizes the SHCP, *Banco de México*, the CNBV, the IPAB and the CONDUSEF to furnish foreign financial authorities with certain protected information under the Mexican bank secrecy laws; *provided, however*, that an agreement must be in place between the CNBV and such authority for the reciprocal exchange of information. The CNBV, the SHCP, *Banco de México*, the IPAB and the CONDUSEF must abstain from furnishing information to foreign financial authorities if, in its sole discretion, such information may be used for purposes other than financial supervision, or by reason of public order, national security or any other cause set forth in the relevant agreement.

Banks and other financial entities are allowed to provide credit related information to duly authorized Mexican credit bureaus. We currently use the services of (i) Buró de Crédito for Corporations provided by Trans Unión de México, S.A. Sociedad de Información Crediticia, and (ii) Buró de Crédito for Natural Persons provided by Dun & Bradstreet, S.A., Sociedad de Información Crediticia. Both companies were incorporated as providers of complementary or auxiliary services to the Bank and other credit institutions under article 88 of the Mexican Banking Law (*Ley de Instituciones de Crédito*) together with leading foreign companies in the provision of credit information services in the United States.

Anti-Money Laundering Regulations

Mexico has in effect a regime for the prevention of operations with resources of illicit origin (commonly known as money laundering) and terrorist financing. The most provisions on this matter in effect, issued by the SHCP, and applicable to credit institutions, are called “General provisions a referred to in article 115 of the Mexican Banking Law” which have been in effect since April 21, 2009 and which last amendment was published on the Federal Official Gazette (*Diario Oficial de la Federación*) on March 3, 2022 (the “**General Provisions**”).

The General Provisions establish various obligations, including:

- the establishment of procedures and criteria of clients and users identification and know-your-customer policies in order to carry out a due diligence of such clients and users that enables us to prevent and detect actions, omissions or transactions that could favor, provide help or cooperation of any kind for money laundering and financing of terrorism;
- implementing procedures to detect and report operations of clients, users or employees of the Bank when there are indications, under specific criteria, that such operations favor money laundering and terrorist financing;
- creation and implementation of a methodology designed to carry out an assessment of risks of becoming vehicles for money laundering and financing of terrorism to which credit institutions are exposed, which are derived from their products, services, clients, users, countries and geographical areas, transactions and distribution or delivery channels with which they operate. Such methodology shall establish the processes for the identification, measurement and mitigation of such risks.
- in order to determine the degree of risk in which customers should be located, credit institutions will have a model of evaluation of risks that must be consistent with the methodology referred to in the previous bullet, to carry out the process of identification, measurement and classification of the risk levels of its customers.
- The establishment of a Communication and Control Committee and the appointment of a compliance officer in charge of supervising full compliance with the General Provisions.
- the appointment of a compliance officer in charge of, among other matters, the elaboration of the anti-money laundering policies and procedures, supervising the correct implementation of the communication and control committee’s determinations, and informing the committee of high risk clients;

- the development of training programs and dissemination contemplating, among other aspects, those related to the content of their internal policies, criteria and procedures regarding money laundering and terrorism financing, the content of the regulation on the matter, as well as information on techniques, methods and trends to prevent, detect and report money laundering and terrorist financing; and
- having automated systems that enable compliance with the General Provisions, including, without limitation, including, without limitation, evaluating customers and users in light of the list of blocked persons.

We are also subject to sanctions under the Mexican Banking Law if we knowingly perform services for persons or entities that are on the blocked persons list prepared by the SHCP. Potential sanctions include:

- A fine of 10% to 100% of the amount of the activity, transaction or service performed by an entity for a customer or user whom the entity knows to be on the blocked persons list prepared by the SHCP;
- A fine of 10% to 100% of the amount of any unreported unusual transaction and, if applicable, any additional transactions related to same customer or user involved in the unreported transaction;
- A fine of 30,000 to 100,000 days' worth of the minimum wage applicable in Mexico for significant transactions or, if applicable, a series of related transactions involving international transfers and unreported transactions in cash undertaken in a foreign currency; or
- A fine of 5,000 to 50,000 days' worth of the minimum wage applicable in Mexico for other failures to comply with applicable law.

On March 3, 2022, an amendment to the General Provisions was published in the Federal Official Gazette, allowing the exchange of information between financial institutions regarding specific anti-money laundering issues relating to:

- Foreign subsidiary financial entities;
- Foreign financial entities in which they hold direct or indirect investments in securities representing their capital stock, as well as with those financial intermediaries that are their subsidiaries; and
- Foreign financial entities with which they carry out correspondent transactions.

Know-your-Customer

Credit institutions are required to organize and maintain a file for the identification of each client, before opening an account or entering into an agreement to execute transactions (each, an "**Identification File**").

An individual's Identification File shall include, among other information, the following data: (i) full name, (ii) gender, (iii) country, federal entity (where applicable) and date of birth, (iv) nationality, (v) contact telephone number, (vi) Citizenship Registry (*Clave Única de Registro de Población*), tax identification number and/or equivalent, as well as the country or countries which granted them, when available, (vii) occupation, profession, main activity or line of business, (viii) complete domicile, (ix) e-mail address, if any, and (x) advanced electronic signature series number, when available.

Likewise, the Identification File must include the following documentation: (i) identification, (ii) proof of domicile, and (iii) declaration of acting in the name and on their own account or on behalf of a third party, as the case may be.

A Mexican entity's Identification File shall include, among other information, the following data: (i) corporate name, (ii) domicile, (iii) nationality, (iv) name of the sole administrator, the members of the board of directors, the general manager or any relevant attorney-in-fact, (v) main activity or line of business, (vi) Mexican tax identification number and if applicable, tax identification number and/or equivalent, as well as the country or countries which assigned them, and (vii) advanced electronic signature series number.

Likewise, the Identification File shall include, among others, the following documentation: (i) articles of incorporation, (ii) certificate evidencing the Mexican tax identification number issued by the SHCP and, where appropriate, the document attesting the assignment of a tax identification number and/or equivalent issued by the competent authority and proof of the advanced electronic signature, (iii) proof of domicile, (iv) identification and copy

of the public deed containing the powers of attorney of its representative, and (v) statement regarding the identity of its beneficial owner (resulting in the obligation to gather the beneficial owner's data and documents).

The previous data and documents that are part of the client's Identification File must be kept for the entire duration of the business relationship, and upon its termination, by a period not less than 10 years after the termination date.

Regulatory Reports of Operations

In accordance with the General Provisions, material transaction reports must be submitted to the SHCP, through the CNBV, and reports of certain international funds transfers, certain U.S. dollar cash transactions, unusual transactions, troubling internal transactions and transactions with cashier's checks.

Additionally, the General Provisions restrict cash transactions denominated in U.S. dollars that may be entered into by credit institutions. Credit institutions are not permitted to receive physical cash amounts in U.S. dollars from individual customers in excess of U.S.\$4,000.00 per month for deposits, payment of credits and services, and purchase of U.S. dollars. Credit institutions are also not permitted to receive physical cash amounts in U.S. dollars from their corporate clients, except in limited circumstances.

Furthermore, credit institutions are not permitted to receive more than U.S.\$300.00 per day in cash currency from individual domestic non-customers, and more than U.S.\$1,500.00 per day from individual foreigner non-customers for individual foreign exchange transactions. In each case, the monthly amount per individual for such transactions cannot exceed U.S.\$1,500.00.

Throughout the amendment to the General Provisions dated March 22, 2019, the SHCP set forth obligations for credit institutions to obtain more information of their clients' counterparts on international funds transfers (which gradually became effective as of September 2020 and November 2020), as well as the geolocation of the customers' devices from which (i) transactions are carried out, (ii) accounts are remotely opened and (iii) agreements to execute any kind of transaction are remotely executed (which became effective as of March 23, 2021).

On June 9, 2020 and July 14, 2020, the General Provisions were amended to provide: (i) the possibility of opening accounts for minors (from the age of 15) in accordance with specific identification requirements for such accounts, and (ii) that banks may extend the thresholds for receiving customer funds in specific circumstances regarding low-risk products until December 2020.

Finally, on May 7, 2021, the General Provisions were amended to provide for new assumptions under which the SHCP may designate municipalities or municipalities in which corporations and foreign exchange dealers with an establishment therein may be recipients of U.S. dollars in cash (subject to certain limits): (i) those where in the judgment of the SHCP, the amounts of remittances per capita are high compared to others, and (ii) where the amounts in absolute value of such remittances are relevant with respect to the total remittances received in Mexico.

Apart from the Mexican regulation as described above, we have included in our anti-money laundering and financing of terrorism, policies the obligation to screen customers and potential customers against Office of Foreign Assets Control lists. To that effect, we have implemented an automated screening process to identify any person included in those lists as well as procedures to close the accounts of any customer included in those lists in accordance with applicable laws, as well as to avoid any future relationship with them. Accordingly, by being part of our policies, and compliance of those obligations is subject to supervision and sanctioning by Mexican authorities.

Rules on Interest Rates

Banco de México regulations limit the number of reference rates that may be used by Mexican banks as a basis for determining interest rates on loans. For peso-denominated loans, banks may choose a fixed rate, a capped variable rate or a variable rate based on a reference rate, which can be one of the following: the "TIE de fondeo", *Cetes*, CCP (*costo de captación promedio a plazo*), the rate determined by *Banco de México* as applied to loans funded by or discounted with *Nacional Financiera, S.N.C. Institución de Banca de Desarrollo* or the rate agreed to with development banks or public economic development trusts in loans funded or discounted with them, the weighted average bank funding rate or the weighted average government funding rate, both as determined by *Banco de México*. For UDI-denominated loans, the reference rate is the UDIBONOS.

For foreign currency-denominated loans, banks may choose either a fixed rate or a variable rate using as reference: (i) one-day rates based on market observed transactions that meet International Organization of Securities Commissions principles and that are accepted by the authorities of the international jurisdiction to which they belong,

including SOFR, the UK's Sterling Overnight Interbank Average Rate and the European Union's Euro Short Term Rate. Likewise, more than one-day-term rates, representing either arithmetic or geometric averages constructed with compounded methodologies or established through other methods, may be considered as reference rates as long as they derive from the aforementioned rates and their use is promoted by a competent authority or association recognized by the market for the recommendation of rates on the respective currency, through mass broadcasting media, including their respective web pages, (ii) market based rates, not determined unilaterally by a financial institution but by a financial authority or group of financial institutions (*i.e.*, LIBOR), (iii) the rate agreed with international or national development banks or trusts, for loans funded by or discounted with such banks or trusts, or (iv) for U.S. dollar-denominated loans, the commercial banks' average cost of term deposits in U.S. dollars (Dollar-CCP) as determined by *Banco de México*.

On January 15, 2020, *Banco de México* published Bulletin 1/2020, introducing the new reference rates: the overnight "TIIE de Fondo" and a "TIIE for terms longer than one day." The rules also provide that only one interest rate can be used for each transaction and that no alternative reference rate is permitted, unless the selected reference rate is discontinued, for which event one or more substitute reference rates must be established, along with their order of substitution. Similarly, a bank's spread has also been restricted to a single formula of either a fixed percentage or a number of basis points to be added to the selected reference rate.

On December 2021, *Banco de México* continued the process of updating its rules after the introduction of the new reference rates.

On November 12, 2010, *Banco de México* published new rules that regulate the issuance and use of credit cards. Such rules standardize the regulations and forms that enable cardholders to authorize charges for recurrent payments relating to goods and services and standardize the procedures for objecting to improper charges and cancelling such services quickly and securely. The rules also establish the way in which credit card issuers shall determine the amount of the minimum payment in each period by means of a formula that favors payment of a part of the principal at the time of each minimum payment, with the aim of achieving payment of debts within a reasonable time period. Such rules also include certain protection provisions for card users in case of theft or loss of their credit cards, the creation of incentives to credit card issuers to adopt additional measures to reduce risks derived from use of credit cards in Internet transactions and the wrongful use of information contained in credit cards.

In June 2014, the Mexican Supreme Court of Justice issued a thesis, of mandatory application, allowing federal judges to determine *ex officio* if an interest rate agreed in a promissory note is evidently excessive, violating an individual's human rights, and consequently establishing a reduced interest rate. The elements the judge should take into account to determine if an interest rate is evidently excessive are: (i) the type of relationship between the parties; (ii) the qualification of the persons intervening in the issuance of the promissory note and if the activity of the creditor is regulated; (iii) the purpose of the credit; (iv) the amount of the loan; (v) the term of the loan; (vi) the existence of guarantees or collateral for the payment of the loan; (vii) the interest rates applied by financial institutions in transactions similar to the one under analysis, as a mere reference; (viii) the variation of the national inflation index during the term of the loan; (ix) market conditions; and (x) other issues that may be relevant for the judge.

To date, the Mexican courts have not issued any judgment reducing the interest rates on loans charged by the Bank. In addition, in November 2016, the Mexican Supreme Court of Justice published a separate thesis setting forth a rebuttable presumption that the interest rates charged on loans made by Mexican banking institutions are not excessive. The thesis was based on the fact that the loans offered to the public by credit institutions are supervised by *Banco de México*, whose supervision has the objective of ensuring that credit institutions' conditions are accessible and reasonable for the public.

Fees

The Law for the Transparency and Regulation of Financial Services defines a "commission" as "any charge, regardless of its denomination or modality other than interest, that an Entity collects from a Client."

Banco de México has the authority to regulate and veto commissions and must ensure that they are in furtherance of the public interest, among other considerations. In addition, *Banco de México* establishes a list of prohibited commissions, which can be found on its website. Prohibited commissions include, but are not limited to, commissions related to (i) basic checking and payroll accounts; (ii) cash withdrawal and balance inquiries at tellers; and (iii) payroll portability services. Each new commission and changes issued by a banking institution must be registered at *Banco de México*, who can veto them.

Banco de México also promotes transparency of commissions with comparisons of costs of financial services, reports of basic indicators and calculators of total annual cost. In addition, the CONDUSEF is a decentralized public organization, whose purpose is to promote, advise, protect and defend the rights and interests of people who use, or contract to use, a product or financial service, as well as to create and foster among users an adequate culture regarding financial operations and services.

Banking regulations in Mexico are constantly monitored by regulators and supervisors. In connection with assessing whether reasonable competitive conditions exist in connection with the fees charged by banks, *Banco de México* must obtain the opinion of COFECE in carrying out present and future assessments. *Banco de México* may take measures to address the proper implementation of any changes and/or new regulations.

Banco de México published rules that modified the rules on ATM user fees, which limited the Bank's ability to charge fees for the use of ATMs by customers and the amount of such fees for services, including: (i) cash withdrawals, (ii) checking account balances, (iii) deposits and (iv) payments, both in bank windows and ATMs operated by the clients' bank. The rules also specify that ATMs shall show a clear caption on their screens regarding costs of the transaction so the client may decide whether to proceed with the transaction.

IPAB Law

The Banking Deposit Insurance Law (*Ley de Protección al Ahorro Bancario*, or the "**IPAB Law**"), which became effective January 20, 1999, provides for the creation, organization and functions of the IPAB, the Mexican bank savings protection agency. The IPAB is a decentralized public entity that regulates the financial support granted to banks for the protection of bank deposits.

Only in exceptional cases may the IPAB grant financial support to banking institutions. For a detailed description of the financial support that may be granted by the IPAB, see "—Resolution and Payment of Guaranteed Obligations."

According to the IPAB Law, banks must provide the information required by the IPAB for the assessment of their financial situation and notify the IPAB about any event that could affect their financial stability. The IPAB Law expressly excludes the release of such data from bank secrecy provisions contained in the Mexican Banking Law and expressly provides that the IPAB and the CNBV can share information and databases of banks.

The IPAB is authorized to manage and sell the loans, rights, shares and any other assets that it acquires to perform its activity according to the IPAB Law, to maximize their recovery value. The IPAB must ensure that the sale of such assets is made through open and public procedures. The Mexican President is required to present annually a report to the Mexican Congress prepared by the IPAB with a detailed account of the transactions conducted by the IPAB in the prior year.

The IPAB has a Governing Board made up of seven members: (i) the Minister of Finance and Public Credit, (ii) the Governor of *Banco de México*, (iii) the President of the CNBV and (iv) four other members appointed by the President of Mexico, with the approval of two-thirds of the Senate.

The deposit insurance to be provided by the IPAB to a bank's depositors will be paid upon determination of liquidation of a bank. The IPAB will act as liquidator or receiver, or both, in the liquidation of banks, according to the Mexican Banking Law. The IPAB will guaranty obligations of banks to certain depositors and creditors (excluding, among others, financial institutions) only up to the amount of 400,000 UDIs (or approximately U.S.\$156,786 as of December 31, 2022) per person per bank. The IPAB will not guarantee (i) deposits and loans constituting negotiable instruments and bearer promissory notes; (ii) liabilities for financial institutions or subsidiaries of the bank, (iii) liabilities not incurred in the ordinary course of business and related party transactions, or (iv) liabilities assumed in bad faith or in connection with money laundering or other illegal activities.

Banks have the obligation to pay the IPAB ordinary and extraordinary contributions as determined from time to time by the IPAB's Governing Board. Under the IPAB Law, banks are required to make monthly ordinary contributions to the IPAB, equal to 1/12 of 0.004% multiplied by the average of the daily outstanding liabilities of the respective bank in a specific month, less (i) holdings of term bonds issued by other commercial banks; (ii) financing granted to other commercial banks; (iii) financing granted by the IPAB; (iv) subordinated debentures that are mandatorily convertible in shares representing the capital stock of the banking institution; and (v) restricted assets and liabilities resulting from the repurchase transactions (*reportos*) and lending of securities with the same counterparty, pursuant to the provisions issued by the IPAB.

The IPAB's Governing Board also has the authority to impose extraordinary contributions in the case that, given the conditions of the Mexican financial system, the IPAB does not have available sufficient funds to comply with its obligations. The determination of the extraordinary contributions is subject to the following limitations: (i) such extraordinary contributions may not exceed, on an annual basis, the amount equivalent to 0.003% multiplied by the total amount of the liabilities outstanding of the banking institutions that are subject to IPAB contributions; and (ii) the aggregate amount of the ordinary and extraordinary contributions may not exceed, in any event, on an annual basis, an amount equivalent to 0.008% multiplied by the total amount of the liabilities outstanding of the applicable banking institution.

The Mexican Congress allocates funds to the IPAB on a yearly basis to manage and service the IPAB's liabilities. In emergency situations, the IPAB is authorized to incur additional financing every three years in an amount not to exceed 6% of the total liabilities of Mexican banks.

Law for the Protection and Defense of Users of Financial Services

A Law for the Protection and Defense of Users of Financial Services (*Ley de Protección y Defensa al Usuario de Servicios Financieros*) is in effect in Mexico. The purpose of this law is to protect and defend the rights and interests of users of financial services. To this end, the law provides for the creation of the CONDUSEF, an autonomous entity that protects the interests of users of financial services and that has very wide authority to protect users of financial services (including imposing fines). The CONDUSEF acts as mediator and arbitrator in disputes submitted to its jurisdiction and seeks to promote better relationships among users of financial institutions and the financial institutions. The Bank and its subsidiaries must submit to the CONDUSEF's jurisdiction in all conciliation proceedings (initial stages of a dispute) and may choose to submit to the CONDUSEF's jurisdiction in all arbitration proceedings that may be brought before it. The law requires banks to maintain an internal unit designated to resolve any and all controversies submitted by clients.

The CONDUSEF maintains a Registry of Financial Service Providers (*Registro de Prestadores de Servicios Financieros*, also known as SIPRES), in which all financial services providers must be registered, making public their corporate and general information, assisting CONDUSEF in the performance of its activities. The CONDUSEF is required to publicly disclose the products and services offered by financial service providers, including interest rates. To satisfy this duty, the CONDUSEF has wide authority to request all necessary information from financial institutions. Furthermore, the CONDUSEF may scrutinize banking services by approving and supervising the use of standard accession agreements.

With respect to its functions and authorities, CONDUSEF (i) is entitled to initiate class actions against Mexican financial institutions, in connection with events affecting groups of users of financial services, (ii) shall maintain a Bureau of Financial Entities (*Buró de Entidades Financieras*), which is to set forth any and all information deemed material for users of financial services, (iii) is empowered to order amendments to any of the standard form commercial banking documentation (such as account and loan agreements) used by financial institutions, if it considers the provisions thereof as detrimental to users, (iv) is permitted to issue resolutions as part of arbitration proceedings for the benefit of issuers that would permit users to attach assets of a financial institution prior to the completion of arbitration proceedings and (v) is given broad authority to fine financial institutions, if any financial institution does not comply with an order issued by the CONDUSEF.

Law for the Transparency and Regulation of Financial Services

The law for the Transparency and Regulation of Financial Services (*Ley para la Transparencia y Ordenamiento de los Servicios Financieros*), published in the Federal Official Gazette in June 2007 and amended on January 10, 2014, aims to regulate (i) the fees charged to customers of financial institutions for the use and/or acceptance of means of payment, as with debit cards, credit cards, checks and orders for the transfer of funds; (ii) the fees that financial institutions charge to each other for the use of any payment system; (iii) interest rates that may be charged to customers, and (iv) other aspects related to financial services, in an effort to make financial services more transparent and protect the interests of the users of such services. This law grants *Banco de México* the authority to regulate interest rates and fees and establish general guidelines and requirements relating to payment devices and credit card account statements. *Banco de México* has the authority to specify the basis upon which each bank must calculate its aggregate annual cost (*costo anual total*), which comprises interest rates and fees, on an aggregate basis, charged in respect of loans and other services. The aggregate annual cost must be publicly disclosed by each bank. The law also regulates the terms that banks must include in standard accession agreements and the terms of any

publicity and of information provided in account statements. We must inform *Banco de México* of any changes in fees at least 30 calendar days before they become effective.

Law on Transparency and Development of Competition for Secured Credit

On December 30, 2002, the Mexican Congress enacted the Law on Transparency and Development of Competition for Secured Credit (*Ley de Transparencia y de Fomento a la Competencia en el Crédito Garantizado*, or the “**Secured Credit Law**”), as amended on January 10, 2014. The Secured Credit Law provides a legal framework for financial activities and certain other services performed by private credit institutions (as opposed to governmental entities) in connection with secured loans relating to real property in general and housing in particular (i.e., purchase, construction, restoration or refinancing). In particular, the Secured Credit Law established specific rules requiring the following: (i) the disclosure of certain information by credit institutions to their clients prior to the execution of the relevant loan agreement, including the disclosure of certain terms relating to interest rates, aggregate costs and expenses payable; (ii) the compliance by credit institutions and borrowers with certain requirements in the application process; (iii) that offers made by credit institutions granting secured loans shall have binding legal effect; (iv) the inclusion of mandatory provisions in loan agreements; and (v) the assumption of certain obligations by public officers (or notaries) before whom secured loans are granted.

In addition, the Secured Credit Law seeks to foster competition among credit institutions by permitting security interests underlying a secured loan to survive any refinancing thereof, even if such loans were granted by different credit institutions. This provision of the Secured Credit Law is designed to reduce expenditures made by borrowers in connection with any refinancing.

Law on the Regulation of Financial Technology Institutions

On March 9, 2018, the Law on the Regulation of Financial Technology Institutions (the “**Fintech Law**”) was published in the Federal Official Gazette. Its main purpose is to regulate financial services provided by collective financing (crowdfunding) institutions and electronic payment institutions, two types of entities which were created by the Fintech Law. The CNBV is the authority responsible for granting authorizations and supervising the organization and operation of both entities.

Collective financing (crowdfunding) institutions are intended to put members of the public in contact with one another so that any member of the public can provide financing to any other member of the public. Electronic payment institutions are intended to provide the public with applications, digital interfaces, internet pages and other means of electronic or digital communications that they can use to make electronic payments on a daily basis.

In addition, the Fintech Law regulates transactions carried out with digital assets. A digital asset is an asset that represents value and is registered electronically, and can be used by the public as a means of payment for any kind of legal activity. The transfer of digital assets can only be carried out through electronic media. The Fintech Law limits digital assets, noting that the financial technology institutions can only operate with digital assets approved by *Banco de México*. It also provides for the creation of the Inter-institutional Committee, which is responsible for making decisions, such as the granting of authorizations and impositions of penalties, among others, in connection with activities carried out pursuant to the Fintech Law. The Inter-institutional Committee serves as the examining body of the CNBV and is composed of public officials of the SHCP, *Banco de México* and the CNBV.

Further, on January 28, 2021, the General Rules Applicable to the Electronic Payment Institutions (*Disposiciones aplicables a las instituciones de fondos de pago electrónico a que se refieren los Artículos 48, segundo párrafo; 54 primer párrafo, y 56, primer y segundo párrafos de la Ley para Regular las Instituciones de Tecnología Financiera*) were published in the Federal Official Gazette

Financial Groups Statutory Responsibility

The Financial Groups Law requires that each financial group holding company enters into a responsibilities agreement with each of its financial services subsidiaries, which includes us, pursuant to Article 119 of the Law to Regulate Financial Groups. Pursuant to such agreement, the financial group holding company is responsible secondarily and without limitation for the satisfaction of the obligations undertaken by its financial entities as a result of the activities that each such subsidiary is authorized to conduct under the applicable laws and regulations, and is fully responsible for the losses of its subsidiaries, up to the total amount of the holding company’s assets. For such purposes, a subsidiary is deemed to have losses its assets are insufficient to meet its payment obligations.

In the event of a financial group holding company's statutory responsibility with respect to a bank, the IPAB must determine the amount of the preliminary losses of such bank. The financial group holding company is required to create a capital reserve for the amount of such losses. The financial group holding company is also required to collateralize the payment of the bank's losses that are paid by the IPAB pursuant to the Mexican Banking Law. Such collateral may be created over the financial group holding company's assets or over such company's shares or those of its subsidiaries.

A financial group holding company is not allowed to pay any dividends or transfer any monetary benefit to its shareholders as of the date on which the IPAB determines the bank's losses, up to the date on which the financial group holding company has paid for the bank's losses.

No subsidiary is responsible for the losses of the financial group holding company or of the financial group holding company's subsidiaries. GFBM has entered into such an agreement with us and its other financial services subsidiaries.

Ownership Restrictions; Foreign Financial Affiliates

Ownership of a financial group holding company's capital stock is no longer limited to specified persons and entities under the Financial Groups Law and the group's corporate charter. Series F shares may be purchased, directly or indirectly, by foreign financial institutions who are residents of a country that has entered into a free trade agreement with Mexico and must represent at all times at least 51% of the paid-in capital.

Notwithstanding the above, under the Financial Groups Law, foreign governments cannot purchase a financial services holding company's capital stock, directly or indirectly, except (i) pursuant to preventive temporary measures, such as financial support or rescue programs, (ii) when control over such institution is held through official entities (such as funds or support governmental entities) and there is evidence that such entities do not exercise any authority functions and their decision making bodies operate separately from the relevant foreign government, and (iii) when the participation is indirect and does not imply the control by the relevant foreign government over the financial services holding company. Mexican financial entities, including those that form part of a financial group, cannot purchase a financial services holding company's capital stock, unless such entities are qualified investors as defined in the Financial Groups Law.

In accordance with applicable law (1) the capital of banks may be composed of voting Series O shares, which may be owned both by Mexican and non-Mexican investors, by Series F shares, which may be owned only by foreign financial institutions or Series B shares, which represent a minority interest in a bank controlled by a foreign financial institution and may be owned by Mexican or foreign investors and, (2) any transfer of shares representing more than 2% of the outstanding capital stock of a Mexican bank is required to be reported to the CNBV, (3) the CNBV has been granted broader discretion to authorize the acquisition of more than 5% of the outstanding shares of a Mexican bank and (4) the composition of the boards of directors of Mexican banks has been limited to a total of 15 members and their alternates (as opposed to the former rule of 11 members or multiples thereof), 25% or more of whom must qualify as independent. Minority shareholders own our Series B shares.

The change in foreign ownership rules continued the liberalization of the Mexican banking system commenced under NAFTA. Pursuant to NAFTA (and now the USMCA), the Free Trade Agreement between Mexico and the European Union, the Free Trade Agreement between Mexico and Japan, the Free Trade Agreement between Mexico and European Free Trade Zone and applicable Mexican laws and regulations, foreign financial entities incorporated in the United States, Canada, member states of the European Union, Japan and other countries with which Mexico has executed relevant international trade agreements, or holding companies of financial institutions formed in Mexico by such foreign financial entities, will be treated identically to Mexican investors when investing in affiliate banks and other financial entities.

A holder that acquires shares in violation of the foregoing restrictions, or in violation of the percentage ownership restrictions, will have their corporate and economic rights under such shares suspended, and may not be enforced until the necessary authorizations have been obtained or the necessary requirements have been met, as required under the Financial Groups Law.

Related Party Transactions

The Mexican Banking Law (*Ley de Instituciones de Crédito*) requires that the board of directors of a bank approves any transaction in which a related party becomes a debtor of a bank. Such transactions include deposits, loans, credits, discounts, the net position of derivatives transactions and other types of financings. The total amount

of related party transactions may not exceed 35% of Tier 1 capital. Related parties are (i) persons who directly or indirectly own 2% or more of the shares of the Bank, of the holding company or of the members of the financial group, (ii) directors and officers of the Bank or of any entity that is part of the financial group to which the Bank belongs, as well as certain affiliates, (iii) certain representatives who are not officials or employees, (iv) legal entities, as well as their directors and officers, in which the financial entity or the holding company of the financial group to which the financial entity belongs has direct or indirect control of 10% or more of its shares, (v) legal entities of which the officers of the financial entities are directors or administrators, or occupy any of the first three hierarchical levels in such financial entities, and (vi) legal entities in which any of the persons indicated in the previous sections, as well as commission agents, commissioners and auditors, have direct or indirect control of 10% or more of the shares of the capital of the financial entities or those who exercise command authority over them.

The related party transactions must be approved by our Board of Directors or, where applicable, by the Related Party Transactions Committee.

Other Regulation Applicable to Our Business

The Mexican Securities Market Law

The Mexican Securities Market Law, applicable to the Bank regarding the issuance of securities, provides standards for authorizing companies to organize and operate as brokerage firms, which authorization is granted by the CNBV with the approval of its governing board. In addition to setting standards for brokerage firms (*casas de bolsa*), the Mexican Securities Market Law authorizes the CNBV, among other things, to regulate the public offering and trading of securities, corporate governance, disclosure and reporting standards and to impose sanctions for the illegal use of insider information and other violations of the Mexican Securities Market Law.

Law on Financial Discipline for States and Municipalities

The Law of Financial Discipline of the Federative Entities and Municipalities (*Ley de Disciplina Financiera de las Entidades Federativas y los Municipios*) was promulgated on April 27, 2016, and published in the Federal Official Gazette, with the purpose of supporting government entities by helping them obtain improved financing terms and conditions to foster growth and development without damaging public finances and continue endorsing state sovereignty and independence, through a transparent system, accountability, and efficient public spending leading to financial discipline for states and municipalities. We are subject to the law when granting loans to federative entities and municipalities of Mexico.

Measures Derived from the Health Emergency Generated by COVID-19

As a result of the COVID-19 pandemic and the subsequent negative impact on the Mexican economy, the CNBV issued a temporary special accounting criterion applicable to credit institutions with respect to their consumer, housing and commercial loan portfolios. For more information, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Effects of Restructured Credits.”

During 2020, *Banco de México* also issued regulations to simplify compliance with different obligations before *Banco de México*, allowing credit institutions to suspend the collection of minimum credit card payments for certain periods.

Likewise, financial authorities, including the CNBV, *Banco de México* and the CONDUSEF, suspended the terms of various procedures and formalities to be completed before such authorities. As of the date of this Offering Memorandum, such terms have been gradually resumed.

DESCRIPTION OF THE NOTES

The following summary of certain provisions of the Notes does not purport to be complete and is subject to all of the provisions of the relevant indenture and the Notes. The terms and conditions stated below will apply to each Note, as applicable, unless otherwise specified in the applicable indenture and pricing supplement. The terms of the Notes described in this Offering Memorandum, including the maturities and interest rates, may differ from one Note to another. The terms of a Tranche of Notes, as defined below, will be specified in a pricing supplement, the form of which is included under “Annex C—Form of Pricing Supplement.” The pricing supplement, and any other supplement to this Offering Memorandum, may also add to, update or change information contained in this summary. **IN CASE OF ANY CONFLICT REGARDING THE RIGHTS AND OBLIGATIONS OF THE HOLDERS OF THE NOTES UNDER THE RELEVANT INDENTURE, THE NOTES AND THIS OFFERING MEMORANDUM, THE TERMS OF THE RELEVANT INDENTURE AND THE NOTES WILL PREVAIL.** In case of any conflict regarding the translation of the provisions of the applicable Mexican law, the official text in Spanish of the Mexican law will prevail. You may obtain a copy of the relevant indenture and the forms of the Notes by contacting the Trustee at the address indicated in this Offering Memorandum or the applicable pricing supplement. References in this “Description of the Notes” to “we,” “us,” “our” and the “Bank” are to BBVA México, S.A., Institución de Banca Múltiple, Grupo Financiero BBVA México and not to any of our subsidiaries or affiliates. It is important for you to consider the information contained in this Offering Memorandum and the applicable pricing supplement in making your investment decision.

General

We, acting through our Texas Agency (unless otherwise specified in the applicable Pricing Supplement), may issue up to an aggregate principal amount of U.S.\$10,000,000,000 (or, at our option if so specified in the relevant pricing supplement, the equivalent of this amount in any other currency or composite currency) of our Medium-Term Notes (the “**Notes**”) outstanding from time to time under the Program. The Bank may at any time increase the maximum aggregate principal amount of Notes that may be issued or outstanding under the Program at any one time without the consent of the holders of Notes. The Notes will be issued in such denominations as may be agreed between the Bank and the relevant Dealer(s). Unless otherwise specified in the applicable pricing supplement (each, a “**Pricing Supplement**”), the Notes will have the terms described below, except that references to interest payments and interest-related information will not apply to certain Original Issue Discount Notes (as defined below). The Notes will be issued pursuant to an authorization by our Board of Directors and shareholders.

THE NOTES WILL BE UNSECURED AND WILL CONSTITUTE EITHER SENIOR OR SUBORDINATED DEBT OBLIGATIONS. THE NOTES WILL NOT BE INSURED OR GUARANTEED BY ANY OF THE BANK’S SUBSIDIARIES OR AFFILIATES, INCLUDING ITS PARENT COMPANY, OR BY INSTITUTO PARA LA PROTECCIÓN AL AHORRO BANCARIO OR ANY OTHER MEXICAN GOVERNMENTAL AGENCY, AND THE NOTES WILL NOT BE CONVERTIBLE, BY THEIR TERMS, INTO ANY OF THE BANK’S DEBT SECURITIES, SHARES OR ANY OF THE BANK’S EQUITY CAPITAL OR ANY DEBT SECURITIES, SHARES OR EQUITY CAPITAL OF ANY OF THE BANK’S SUBSIDIARIES OR AFFILIATES.

Senior Notes Indenture and Subordinated Notes Indenture

Any Series of Notes that are senior debt obligations (the “**Senior Notes**”) are to be issued under a senior notes indenture dated as of August 6, 2019, between the Issuer and The Bank of New York Mellon, as trustee (in such capacity, the “**Trustee**”), registrar, paying agent and transfer agent (as amended and supplemented from time to time, the “**Senior Notes Indenture**”), and will be issued in registered form as provided in the applicable Pricing Supplement. The following description of certain provisions of the Senior Notes Indenture does not purport to be complete, and is subject to, and is qualified in its entirety by reference to, all the provisions of the Senior Notes Indenture, including the definitions therein of certain terms. The Senior Notes will rank *pari passu* without preference among themselves and with all the Bank’s other Senior Indebtedness, as defined below. See “—Certain Terms and Conditions Applicable to Senior Notes—Ranking” below.

Any Series of Notes that are subordinated debt obligations (the “**Subordinated Notes**”) will be issued pursuant to the prior approval of *Banco de México*, as required under Mexican law, under an indenture for such Series between the Issuer and The Bank of New York Mellon, as Trustee, registrar, paying agent and transfer agent and acknowledged by the CNBV (through an authorized officer thereof) (each, as amended and supplemented from time to time, a “**Subordinated Notes Indenture**”), the terms of which are described in this Offering Memorandum, as supplemented by the applicable Pricing Supplement. The Subordinated Notes will rank (i) subordinated and junior to

all of the Bank's present and future Senior Indebtedness (as defined below), (ii) *pari passu* with all other present or future Subordinated Preferred Indebtedness and (iii) senior to Subordinated Non-Preferred Indebtedness (*obligaciones subordinadas no preferentes*) and all classes of the Bank's capital stock, as specified in the relevant Subordinated Notes Indenture, this Offering Memorandum and the applicable Pricing Supplement. The Subordinated Notes will be issued in registered form as provided in the applicable Subordinated Notes Indenture and described in the applicable Pricing Supplement. The following description of certain provisions of the Subordinated Notes Indentures does not purport to be complete, and is subject to, and is qualified in its entirety by reference to, all the provisions of the relevant Subordinated Notes Indenture, including the definitions therein of certain terms. See "—Certain Terms and Conditions Applicable to Subordinated Notes—Ranking" below.

The Senior Notes Indenture and each Subordinated Notes Indenture are referred to herein as the "**Indentures**." We may incur additional indebtedness, including senior indebtedness, subordinated preferred indebtedness and subordinated non-preferred indebtedness, from time to time, and the provisions of the Indentures do not prohibit or limit the incurrence of additional indebtedness, including additional senior indebtedness, subordinated preferred indebtedness and subordinated non-preferred indebtedness.

Neither the Indentures nor the Notes contain, or will contain, any provision that would protect the holders of the Notes against a sudden and dramatic decline in our credit quality resulting from a takeover, recapitalization or other restructuring or other event involving us that may adversely affect our credit quality.

Further Issuances

Unless otherwise specified in the applicable Pricing Supplement under "Additional Notes," the Bank may, from time to time, without giving notice to or seeking the consent of the holders of the Notes of any Series of Senior Notes, re-open one or more Series and issue additional Senior Notes with the same terms (including maturity and interest payment terms but excluding the Original Issue Date (as defined below) and, in some cases, the public offering price and the first Interest Payment Date (as defined below)) as, and ranking equally and ratably with, the Notes of a Series issued on an earlier date (the "**Additional Notes**"); *provided* that if the Additional Notes are not fungible with the earlier Notes for U.S. federal income tax purposes, the Additional Notes will have separate CUSIP numbers, ISINs and Common Codes, as applicable. After such Additional Notes are issued, they will be fungible with the previously issued Notes to the extent specified in the applicable Pricing Supplement. Each such Series may contain one or more tranches of Notes (each, a "**Tranche**") having identical terms, including the Original Issue Date and the public offering price. Unless otherwise specified in the applicable Pricing Supplement under "Additional Notes," the Bank may not issue Additional Notes as part of an existing Series of Subordinated Notes.

Additional Information in the Applicable Pricing Supplement

The specific financial, legal and other terms particular to a Series of Notes will be contained in the relevant Indenture and the Notes for such Series and will be described in the applicable Pricing Supplement relating to the Series. The Pricing Supplement relating to a Tranche of Notes will describe the following terms:

- the title of the Tranche;
- whether such Notes are senior or subordinated and, if subordinated, the terms of the subordination;
- the date on which such Notes will mature (the "**Maturity Date**");
- the currency or composite currency in which the Notes of such Series will be denominated (each such currency or composite currency, a "**Specified Currency**") and, if other than the Specified Currency, the currency or composite currency in which payments on the Notes of such Series will be made (and, if the Specified Currency or currency or composite currency of payment is other than U.S. dollars, certain other terms relating to such Notes (the "**Foreign Currency Notes**") and such Specified Currency or such currency or composite currency of payment);
- whether such Notes are Fixed Rate Notes or Floating Rate Notes (including whether such Notes are Regular Floating Rate Notes, Fixed/Floating Rate Notes, Floating/Fixed Rate Notes or Inverse Floating Rate Notes, each as defined below);
- the price at which such Notes will be issued;
- the date on which such Notes will be issued (the "**Original Issue Date**");

- if such Notes are Fixed Rate Notes, the rate per annum at which such Notes will bear interest, if any, and the dates on which such interest shall be payable on such Fixed Rate Notes (each, an “**Interest Payment Date**”);
- if such Notes are Fixed Reset Notes, the Initial Fixed Reset Interest Rate, the Fixed Reset Date, the Subsequent Reset Date (if any), the Reset Reference Rate, the Reset Margin (each as defined below), the Interest Payment Dates, the calculation agent therefor and any other terms relating to the particular method of calculating the interest rate for such Fixed Reset Notes;
- if such Notes are Floating Rate Notes, the base rate, the initial interest rate (the “**Initial Interest Rate**”), the minimum interest rate and/or the maximum interest rate (if any), the Interest Payment Dates, the period to maturity of the instrument, obligation or index with respect to which the calculation agent will calculate the interest rate basis or bases (the “**Index Maturity**”), the Spread and/or Spread Multiplier, if any (each as defined below), the calculation agent therefor and any other terms relating to the particular method of calculating the interest rate for such Floating Rate Notes;
- if such Notes are Indexed Notes, Extendible Notes or Dual Currency Notes (each as defined below), the terms relating to the particular Notes;
- if such Notes are Amortizing Notes (as defined below), the amortization schedule and any other terms relating to the particular Notes;
- whether such Notes may be redeemed at the option of the Bank, or repaid at the option of the holder, prior to its stated maturity as described under “—Other Terms and Conditions Applicable to the Senior and Subordinated Notes—Redemption; Repurchases at the Bank’s Option; Repurchases at the Holder’s Option—Optional Redemption with a Make-Whole Premium” and “—Other Terms and Conditions Applicable to the Senior and Subordinated Notes—Repayments at the Option of the Holders” below and, if so, the provisions relating to such redemption or repayment, including, in the case of any Original Issue Discount Notes, the information necessary to determine the amount due upon redemption or repayment;
- any relevant tax consequences associated with the terms of the Notes, which have not been described under “Taxation—United States Taxation” below;
- if such Notes are Additional Notes, a description of the Original Issue Date and aggregate principal amount of the prior Tranche of Notes having terms (other than the Original Issue Date and the public offering price) identical to such Additional Notes;
- whether the purpose of the issuance is for green, social or sustainability purposes as described in the “Use of Proceeds” section;
- the denomination or denominations in which the Notes shall be issuable;
- any deletions from, modifications of or additions to the Events of Default (as defined below) or covenants, financial or otherwise, of us with respect to such Notes;
- any trustees and any agents with respect to such Notes if different from those identified in this section and the identity of any calculation agent or other applicable agent;
- the form of such Notes, if such Notes shall be global notes, and the depository for such Notes; and
- any other terms and conditions of such Notes.

In addition, each Pricing Supplement with respect to a Tranche of Notes will identify the Dealer(s) participating in the distribution of such Notes. Each Pricing Supplement relating to Notes will be in, or substantially in, the relevant forms included under “Annex C—Form of Pricing Supplement.”

If any Notes are to be issued as Foreign Currency Notes, the applicable Pricing Supplement will specify (i) the currency or currencies, which may be composite currencies, in which the purchase price of such Notes is to be paid by the purchaser, and (ii) the currency or currencies, which may be composite currencies, in which the principal at maturity or earlier redemption, premium, if any, and interest, if any, with respect to such Notes may be paid, if applicable, along with any other terms relating to the non-U.S. dollar denomination. For further information for Notes

denominated in currencies other than U.S. dollars, see the applicable Pricing Supplement related to any such Notes, which shall include the provisions related to Foreign Currency Notes.

Unless otherwise specified in the applicable Pricing Supplement, the principal financial center of any country for the purpose of the foregoing definition is as provided in the 2006 ISDA Definitions, and as amended and updated from time to time, published by the International Swaps and Derivatives Association, Inc.

Principal and Interest

Interest

Subject to, in the case of each Series of Subordinated Notes, deferral during any Suspension Period (as defined below) and to one or more Write-Downs, and in the case of each Series of Senior and Subordinated Notes, an earlier redemption date, unless otherwise specified in the applicable Pricing Supplement, each Note will bear interest from (and including) its Original Issue Date or such other date specified in the applicable Pricing Supplement (the “**Interest Commencement Date**”) or from the most recent Interest Payment Date (or, if such Note is a Floating Rate Note and the Interest Reset Period is daily or weekly, from the day following the most recent Regular Record Date) (as each such term is defined below) to (but excluding) the next Interest Payment Date; *provided, however*, that the first payment of interest on any Note originally issued between a Regular Record Date and the Interest Payment Date immediately following such Regular Record Date will be made on the second Interest Payment Date following such Original Issue Date. Such interest will be payable by the Issuer to the registered owner on such next Regular Record Date. Interest will accrue on a Note until the principal thereof is paid or made available for payment.

Subject to, in the case of each Series of Subordinated Notes, deferral during any Suspension Period and to one or more Write-Downs, and, in the case of each Series of Senior and Subordinated Notes, an earlier redemption date, interest will be payable on a Note on each Interest Payment Date to the person in whose name such Note is registered as of the applicable Regular Record Date; *provided, however*, that any interest not punctually paid or duly provided for, or defaulted interest, will cease to be payable to the holder of a Note at the close of business on the applicable Regular Record Date. The defaulted interest will instead be payable to the person in whose name the Note is registered at the close of business on a special record date for the payment of the defaulted interest, fixed by the applicable Trustee at the written direction of the Issuer. The Trustee will give notice of the payment of the defaulted interest to the holder of the Note in the manner specified under “—Notices” below not less than 15 days prior to the special record date.

Payment upon Maturity

Subject to, in the case of each Series of Subordinated Notes, deferral during any Suspension Period and the occurrence of one or more Write-Downs, unless the applicable Series of Notes has been redeemed prior thereto or, in the case of Subordinated Notes, a Suspension Period is in effect on the Maturity Date, the then-outstanding principal amount of the applicable Series of Notes will be repaid on the Maturity Date, together with any accrued and unpaid interest thereon to (but excluding) the Maturity Date and any other amounts, including Additional Amounts, due thereunder, in each case as provided in this Offering Memorandum.

For deferral of interest and principal payments during a Suspension Period, see below in “—Certain Terms and Conditions Applicable to Subordinated Notes—Treatment of Interest and Principal During a Suspension Period—Deferral of Interest and Principal Payments.”

For possible reduction or suspension of interest and principal payments due to a Write-Down, see below in “—Certain Terms and Conditions Applicable to Subordinated Notes—Trigger Event and Write-Down.” Upon the occurrence of a Write-Down, any holder of Subordinated Notes will be deemed to have irrevocably waived its right to claim or receive the Written-Down Principal (as defined below) of the Notes or any interest with respect thereto (or Additional Amounts), including any and all accrued and unpaid interest.

Interest Rates

Unless otherwise specified in the applicable Pricing Supplement, each Note will bear interest at either:

- (a) a fixed rate; and/or

- (b) a floating rate determined by reference to an interest rate basis, which may be adjusted by a Spread and/or Spread Multiplier (each as defined below). Any Floating Rate Note may also have either or both of the following:
 - (i) a maximum interest rate limitation, or ceiling, on the rate at which interest may accrue during any interest period (the “**Maximum Interest Rate**”); and
 - (ii) a minimum interest rate limitation, or floor, on the rate at which interest may accrue during any interest period (the “**Minimum Interest Rate**”); *provided* that if no Minimum Interest Rate is specified or if the Pricing Supplement indicates that the Minimum Interest Rate is “not applicable,” then the Minimum Interest Rate shall be zero.

The applicable Pricing Supplement may specify that the interest rate on the Notes will convert from a fixed rate to a floating rate (a “**Fixed/Floating Rate Note**”), or from a floating rate to a fixed rate (a “**Floating/Fixed Rate Note**”). See “—Floating Rate Notes—Regular Floating Rate Note; Fixed/ Floating Rate Note; Floating/Fixed Rate Note; Inverse Floating Rate Note—Fixed/Floating Rate Note” and “—Floating Rate Notes—Regular Floating Rate Note; Fixed/ Floating Rate Note; Floating/Fixed Rate Note; Inverse Floating Rate Note—Floating/Fixed Rate Note” below. The “**Spread**” is the number of basis points, expressed as a percentage (one basis point equals one-hundredth of a percentage point), specified in the relevant Pricing Supplement that the calculation agent will add or subtract from the related interest rate basis or bases applicable to a Floating Rate Note. The “**Spread Multiplier**” is the percentage, specified in the relevant Pricing Supplement, by which the calculation agent will multiply the interest rate basis or bases for a Floating Rate Note to determine the applicable interest rate on such Floating Rate Note.

The applicable Pricing Supplement will designate:

- (a) a fixed rate per annum, in which case such Notes will be “**Fixed Rate Notes**”;
- (b) a fixed rate per annum, which resets on the Fixed Reset Date (as defined in “—Fixed Reset Notes—General”), in which case such Notes will be “**Fixed Reset Notes**”; or
- (c) one or more of the following interest rate bases as applicable to such Notes, in which case such Notes will be “**Floating Rate Notes**”:
 - (i) the CD Rate, in which case such Notes will be “**CD Rate Notes**”;
 - (ii) the Commercial Paper Rate, in which case such Notes will be “**Commercial Paper Rate Notes**”;
 - (iii) the CMT Rate, in which case such Notes will be “**CMT Rate Notes**”;
 - (iv) the Federal Funds Rate, in which case such Notes will be “**Federal Funds Rate Notes**”;
 - (v) EURIBOR, in which case such Notes will be “**EURIBOR Notes**”;
 - (vi) the Treasury Rate, in which case such Notes will be “**Treasury Rate Notes**”;
 - (vii) the Prime Rate, in which case such Notes will be “**Prime Rate Notes**”; or
 - (viii) such other interest rate basis or formula as is set forth in such Pricing Supplement.

The Notes may be issued as Original Issue Discount Notes. “**Original Issue Discount Notes**” are Notes issued at a discount from the principal amount payable at maturity that is equal to or more than the *de minimis* threshold (as determined for U.S. federal income tax purposes). Certain additional considerations relating to Original Issue Discount Notes may be described in the applicable Pricing Supplement relating thereto.

Unless otherwise indicated in the applicable Pricing Supplement, interest will be payable on a Note on each Interest Payment Date to the person in whose name such Note is registered as of the close of business on:

- (a) for Fixed Rate Notes or Fixed Reset Notes, the date fifteen calendar days prior to such Interest Payment Date (whether or not a Business Day (as defined below)); and
 - (b) for Floating Rate Notes, the calendar day immediately preceding such Interest Payment Date (whether or not a Business Day)
- (each, a “**Regular Record Date**”).

“**Business Day**” means, unless otherwise specified in the applicable Pricing Supplement, any day other than a Saturday or Sunday or any other day on which banking institutions are generally authorized or obligated by law or regulation to close or a day on which banking institutions in The City of New York, New York or Mexico City, Mexico are authorized or required by law or executive order to remain closed.

Fixed Rate Notes

General

Each Fixed Rate Note will bear interest at the annual rate specified in the Note and in the applicable Pricing Supplement (the “**Fixed Rate of Interest**”). Interest on the Fixed Rate Notes will be paid on the Interest Payment Dates specified in the applicable Pricing Supplement. If any Interest Payment Date or Maturity Date for any Fixed Rate Note (including, in the case of a Fixed/Floating Rate Note or a Floating/Fixed Rate Note, an Interest Payment Date during the fixed rate period, but excluding an Interest Payment Date during the floating rate period) is not a Business Day, interest on such Fixed Rate Note will be paid on the next succeeding Business Day without additional interest. If interest is required to be calculated for a period other than a Fixed Interest Period (as defined below), such interest shall be calculated by applying the Fixed Rate of Interest to each specified denomination of the Notes of such Series, multiplying such sum by the applicable Fixed Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards, or otherwise in accordance with applicable market convention.

Day Count Fraction

Unless otherwise indicated in the applicable Pricing Supplement, “**Fixed Day Count Fraction**” means:

- (a) in the case of Notes denominated in a currency other than U.S. dollars, “Actual/Actual (ICMA)” meaning:
 - (i) in the case of Notes where the number of days in the relevant period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date specified in the applicable Pricing Supplement) to (but excluding) the relevant payment date (the “**Calculation Period**”) is equal to or shorter than the Determination Period (as defined below) during which the Calculation Period ends, the number of days in such Calculation Period divided by the product of (1) the number of days in such Determination Period and (2) the number of determination dates (each, a “**Day Count Determination Date**”) (as specified in the applicable Pricing Supplement) that would occur in one calendar year; or
 - (ii) in the case of Notes where the Calculation Period is longer than the Determination Period during which the Calculation Period ends, the sum of:
 - i. the number of days in such Calculation Period falling in the Determination Period in which the Calculation Period begins divided by the product of (x) the number of days in such Determination Period and (y) the number of Day Count Determination Dates (as specified in the applicable Pricing Supplement) that would occur in one calendar year; and
 - ii. the number of days in such Calculation Period falling in the next Determination Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Day Count Determination Dates that would occur in one calendar year; and
- (b) in the case of Notes denominated in U.S. dollars, “30/360,” meaning the number of days in the period from and including the most recent Interest Payment Date (or, if none, the Interest Commencement Date (as specified in the applicable Pricing Supplement)) to (but excluding) the relevant payment date (such number of days being calculated on the basis of a year of 360 days with twelve 30-day months) divided by 360.

Where:

“**Determination Period**” means the period from (and including) a Day Count Determination Date to (but excluding) the next Day Count Determination Date (including where either the Interest Commencement Date (as specified in the applicable Pricing Supplement) or the final Interest Payment Date is not a Day Count Determination Date, the period commencing on the first Day Count Determination Date prior to, and ending on the first Day Count Determination Date falling after, such date).

“**Fixed Interest Period**” means the period from (and including) an Interest Payment Date (or, if none, the Interest Commencement Date (as specified in the applicable Pricing Supplement)) to (but excluding) the next (or first) Interest Payment Date.

“**sub-unit**” means, with respect to any currency other than Euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, with respect to Euro, means one cent.

Fixed Reset Notes

General

Unless otherwise indicated in the applicable Pricing Supplement, each Fixed Reset Note will bear interest from (and including):

- (a) the Interest Commencement Date to (but excluding) the fixed reset date specified in the applicable Pricing Supplement (the “**Fixed Reset Date**”) at the rate per annum equal to the initial interest rate, each as specified in the applicable Pricing Supplement (such rate is hereinafter referred to as the “**Initial Fixed Reset Interest Rate**” and such period is hereinafter referred to as the “**Initial Fixed Reset Interest Period**”), and
- (b) the Fixed Reset Date to (but excluding) either (1) the Maturity Date or (2) if applicable, the first subsequent reset date specified in the applicable Pricing Supplement (the “**Subsequent Reset Date**”) and each successive period from (and including) any Subsequent Reset Date to (but excluding) the next succeeding Subsequent Reset Date (if any) (each period in (1) and (2), a “**Subsequent Fixed Reset Interest Period**”), in each case at the rate per annum equal to the relevant Subsequent Reset Rate, as defined below,

(in each case rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) payable, in each case, in arrears on the applicable Interest Payment Date(s) in each year up to and including the Maturity Date.

Once the Subsequent Reset Rate is determined for a Subsequent Fixed Reset Interest Period, the provisions applicable to Fixed Rate Notes shall apply to Fixed Reset Notes, as applicable, as if the Fixed Reset Notes were Fixed Rate Notes.

Rate of Interest

Each Fixed Reset Note will bear interest during the Initial Fixed Reset Interest Period at the Initial Fixed Reset Interest Rate. Each Fixed Reset Note will bear interest during the Subsequent Fixed Reset Interest Period at the rate that is equal to the sum of the reset reference rate specified in the applicable Pricing Supplement (the “**Reset Reference Rate**”) and the reset margin specified in the applicable Pricing Supplement (the “**Reset Margin**,” and the sum of the Reset Reference Rate and the Reset Margin, the “**Subsequent Reset Rate**”). Unless otherwise specified in the applicable Pricing Supplement, the Subsequent Reset Rate will be determined on the second Business Day immediately preceding the Fixed Reset Date and each Subsequent Reset Date (if any) (the “**Reset Determination Date**”).

For the purposes of each Series of Fixed Reset Notes, if “Treasury Yield” is specified in the applicable Pricing Supplement as the “Reset Reference Rate,” the following definitions apply:

“**Treasury Yield**” will be defined in the applicable Indenture to mean, as of any date of determination, an interest rate (expressed as a decimal and, in the case of United States Treasury bills, converted to a bond equivalent yield) determined to be the per annum rate equal to the semiannual yield to maturity for United States Treasury securities maturing on the Maturity Date for the relevant Notes, and trading in the public securities markets either as determined by interpolation between the most recent weekly average yield to maturity for two series of United States Treasury securities trading in the public securities market, (A) one maturing as close as possible to, but earlier than, the Maturity Date for such Notes, and (B) the other maturity

as close as possible to, but later than the Maturity Date for such Notes, in each case as published in the most recent H.15 or, if a weekly average yield to maturity for United States Treasury securities maturing on the Maturity Date for such Notes is published in the most recent H.15, such weekly average yield to maturity as published in such H.15; and

“**H.15**” will be defined in the applicable Indenture to mean the weekly statistical release designated as such, or any successor publication, published by the Board of Governors of the Federal Reserve System and most recent H.15 means the H.15 published prior to the applicable Reset Determination Date.

Unless we have validly called all outstanding Fixed Reset Notes of the applicable Series for redemption on or prior to the applicable Fixed Reset Date, we will appoint a calculation agent with respect to such Series of Notes prior to the Reset Determination Date preceding the Fixed Reset Date. The applicable Subsequent Reset Rate for each Subsequent Fixed Reset Interest Period will be determined by the calculation agent, as of the applicable Reset Determination Date. Promptly upon such determination, the calculation agent will notify us of the Subsequent Reset Rate for such Subsequent Fixed Reset Interest Period. The calculation agent’s determination of any Subsequent Reset Rate beginning on or after the Fixed Reset Date will be on file at our principal offices, will be made available to any holder of Notes of such Series upon request and will be final and binding in the absence of manifest error.

Floating Rate Notes

General

Floating Rate Notes generally will be issued as described below. Each applicable Pricing Supplement will specify certain terms with respect to which such Floating Rate Note is being delivered, including:

- (a) whether such Floating Rate Note is a Regular Floating Rate Note, a Fixed/Floating Rate Note, a Floating/Fixed Rate Note or an Inverse Floating Rate Note, each as defined below;
- (b) the interest rate basis or bases, Initial Interest Rate, Interest Reset Dates, Interest Reset Period, redemption date and terms (if any); Regular Record Dates (if any) and Interest Payment Dates;
- (c) the Index Maturity;
- (d) the Spread and/or Spread Multiplier, if any; and
- (e) the Maximum Interest Rate and Minimum Interest Rate, if any; *provided* that if no Minimum Interest Rate is specified or if the Pricing Supplement indicates that the Minimum Interest Rate is “not applicable,” then the Minimum Interest Rate shall be zero.

The Bank may change the Spread, Spread Multiplier, Index Maturity and other variable terms of the Floating Rate Notes from time to time. However, no such change will affect any Floating Rate Note previously issued or as to which an offer has been accepted by the Bank.

The interest rate in effect on each day shall be:

- (a) if such day is an Interest Reset Date, the interest rate determined on the Interest Determination Date immediately preceding such Interest Reset Date; or
- (b) if such day is not an Interest Reset Date, the interest rate determined on the Interest Determination Date immediately preceding the next preceding Interest Reset Date.

The “**Interest Determination Date**” is the date that the calculation agent will refer to when determining the new interest rate at which a floating rate applicable to a Floating Rate Notes will reset. Unless otherwise specified in the applicable Pricing Supplement, the Interest Determination Date for any Interest Reset Date will be:

- (a) for CD Rate Notes, Commercial Paper Rate Notes, CMT Rate Notes and Prime Rate Notes, the second Business Day before the Interest Reset Date;
- (b) for Federal Funds Rate Notes, the Business Day immediately preceding the related Interest Reset Date;
- (c) for EURIBOR Notes, the second Target Business Day before the Interest Reset Date. “**Target Business Day**” means any day on which TARGET2 (Trans-European Automated Real-Time Gross Settlement Express Transfer payment system) is open for the settlement of payments in Euro; and

- (d) for Treasury Rate Notes, the day of the week in which the Interest Reset Date falls and on which Treasury bills would normally be auctioned.

Treasury bills are normally sold at auction on Monday of each week, unless that day is a legal holiday, in which case the auction is normally held on the following Tuesday, but the auction may be held on the preceding Friday. If, as the result of a legal holiday, an auction is held on the preceding Friday, that Friday will be the Interest Determination Date for the Interest Reset Date for Treasury Rate Notes occurring in the next week. If an auction falls on a day that is an Interest Reset Date for a Treasury Rate Note, the Interest Reset Date will be the Business Day immediately following the auction date.

The Interest Determination Date for a Floating Rate Note for which the interest rate is determined by two or more interest rate bases, will be the latest Business Day that is at least two Business Days prior to the Interest Reset Date for the Floating Rate Note on which each interest rate basis can be determined.

Regular Floating Rate Note; Fixed/Floating Rate Note; Floating/Fixed Rate Note; Inverse Floating Rate Note

The interest rate basis applicable to each Regular Floating Rate Note, Fixed/Floating Rate Note, Floating/Fixed Rate Note and Inverse Floating Rate Note may be subject to a Spread and/or Spread Multiplier; *provided* that the interest rate on any such note will not be less than zero. If a Floating Rate Note is designated as having an “Addendum” attached as specified on the face thereof, the Floating Rate Note shall bear interest in accordance with the terms described in such Addendum and the applicable Pricing Supplement. See “—Other Provisions” below.

Regular Floating Rate Note. A “**Regular Floating Rate Note**” will bear interest at the rate determined by reference to the applicable interest rate basis or interest rate bases (a) plus or minus the applicable Spread (if any) and/or (b) multiplied by the applicable Spread Multiplier (if any). The rate at which interest shall be payable on such Regular Floating Rate Note shall be reset as of each Interest Reset Date commencing on the initial Interest Reset Date. However:

- (a) the interest rate in effect for the period from the Original Issue Date to the initial Interest Reset Date will be the Initial Interest Rate; and
- (b) the interest rate in effect for the 10 calendar days immediately prior to a Maturity Date shall be that in effect on the tenth calendar day preceding such Maturity Date, unless otherwise specified in the applicable Pricing Supplement.

Fixed/Floating Rate Note. A “**Fixed/Floating Rate Note**” will initially, and during the “Fixed Rate Period” specified in the applicable Pricing Supplement, bear interest at a fixed rate. During the “Floating Rate Period” specified in the applicable Pricing Supplement, such Note will bear interest at the rate determined by reference to the applicable interest rate basis or bases (a) plus or minus the applicable Spread (if any), and/or (b) multiplied by the applicable Spread Multiplier (if any). The rate at which interest shall be payable on such Fixed/Floating Rate Note during the “Floating Rate Period” shall be reset as of each Interest Reset Date commencing with the date the floating rate commences.

Floating/Fixed Rate Note. A “**Floating/Fixed Rate Note**” will initially, and during the “Floating Rate Period” specified in the applicable Pricing Supplement, bear interest at the rate determined by reference to the applicable interest rate basis (a) plus or minus the applicable Spread (if any) and/or (b) multiplied by the applicable Spread Multiplier (if any). During the “Fixed Rate Period” specified in the applicable Pricing Supplement, such Floating/Fixed Rate Note will bear interest at a fixed rate. The rate at which interest shall be payable on such Floating/Fixed Rate Note shall be reset as of each Interest Reset Date commencing on the initial Interest Reset Date. However:

- (a) the interest rate in effect for the period from the Original Issue Date to the initial Interest Reset Date will be the Initial Interest Rate;
- (b) the interest rate in effect for the 10 calendar days immediately prior to the fixed rate commencement date shall be that in effect on the tenth calendar day preceding the fixed rate commencement date, unless otherwise specified in the applicable Pricing Supplement; and
- (c) the interest rate in effect commencing on, and including, the fixed rate commencement date to the Maturity Date shall be the fixed interest rate, if such rate is specified in the applicable Pricing Supplement, or if no such fixed interest rate is so specified and the Floating/Fixed Rate Note is still

outstanding on such day, the interest rate in effect thereon on the day immediately preceding the fixed rate commencement date.

Inverse Floating Rate Note. An “**Inverse Floating Rate Note**” will bear interest equal to the fixed interest rate specified in the relevant Pricing Supplement minus the rate determined by reference to the interest rate basis (a) plus or minus the applicable Spread (if any) and/or (b) multiplied by the applicable Spread Multiplier (if any). The rate at which interest is payable shall be reset as of each Interest Reset Date commencing on the initial Interest Reset Date. However:

- (a) the interest rate in effect for the period from the Original Issue Date to the initial Interest Reset Date will be the Initial Interest Rate; and
- (b) the interest rate in effect for the 10 calendar days immediately prior to a Maturity Date shall be that in effect on the tenth calendar day preceding such Maturity Date, unless otherwise specified in the applicable Pricing Supplement.

Interest Rate Bases

Each Floating Rate Note will have one or more interest rate bases. The formula may be based on:

- (a) the CD Rate;
- (b) the Commercial Paper Rate;
- (c) the CMT Rate;
- (d) the Federal Funds Rate;
- (e) EURIBOR;
- (f) the Treasury Rate;
- (g) the Prime Rate;
- (h) the lowest of two or more interest rate bases; or
- (i) such other rate specified in the applicable Pricing Supplement.

Date of Interest Rate Change

The interest rate on each Floating Rate Note may be reset daily, weekly, monthly, quarterly, semi-annually or annually, as specified in the applicable Pricing Supplement (such period, the “**Interest Reset Period**” and the first day of each Interest Reset Period, the “**Interest Reset Date**”).

If an Interest Reset Date for any Floating Rate Note falls on a day that is not a Business Day, it will be postponed to the following Business Day, except that if that Business Day is in the next calendar month, the Interest Reset Date will be the immediately preceding Business Day.

How Interest Is Calculated

General

The Bank will appoint a calculation agent to calculate interest rates on the Floating Rate Notes, which will be specified in the applicable Pricing Supplement. Floating Rate Notes will accrue interest from and including the Original Issue Date or the last date to which the Bank has paid or provided for interest, to (but excluding) the applicable Interest Payment Date, as described below, or the Maturity Date, as the case may be. However, unless otherwise specified in the applicable Pricing Supplement, for Floating Rate Notes for which the interest rate is reset daily or weekly, each interest payment will include interest accrued from (and including) the date of issue or from (but excluding) the last Regular Record Date to which interest has been paid, through and including the Regular Record Date next preceding the applicable Interest Payment Date. Interest payments on Floating Rate Notes made on the Maturity Date will include interest accrued to (but excluding) such Maturity Date.

So long as any Floating Rate Notes are listed on or by any exchange, competent authority and/or market, and the rules of such exchange(s), competent authority(ies) and/or market(s) so require, the Bank will maintain a calculation agent for the Floating Rate Notes, and the Bank will notify the holders of its Floating Rate Notes in the

manner specified under “—Notices” below if the Bank appoints a calculation agent with respect to such Floating Rate Notes other than the calculation agent designated as such in the applicable Pricing Supplement.

Day Count Fraction

The amount of interest (the “**Interest Amount**”) payable on any Series of Floating Rate Notes shall be calculated with respect to each specified denomination of such Floating Rate Notes of such Series for the relevant Interest Reset Period. Each Interest Amount shall be calculated by applying the relevant interest rate basis and Spread and/or Spread Multiplier, if any, to each specified denomination and multiplying such sum by the applicable Floating Day Count Fraction.

“**Floating Day Count Fraction**” means, in respect of the calculation of the Interest Amount for any Interest Reset Period:

- (a) if “Actual/Actual” or “Actual/Actual (ISDA)” is specified in the applicable Pricing Supplement, the actual number of days in the Interest Reset Period divided by 365 (or, if any portion of that Interest Reset Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Interest Reset Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Interest Reset Period falling in a non-leap year divided by 365);
- (b) if “Actual/365 (Fixed)” is specified in the applicable Pricing Supplement, the actual number of days in the Interest Reset Period divided by 365;
- (c) if “Actual/360” is specified in the applicable Pricing Supplement, the actual number of days in the Interest Reset Period divided by 360;
- (d) if “30/360,” “360/360” or “Bond Basis” is specified in the applicable Pricing Supplement, the number of days in the Interest Reset Period divided by 360, calculated on a formula basis as follows:

$$\text{Floating Day Count Fraction} = \frac{[360 \times (Y2 - Y1)] + [30 \times (M2 - M1)] + (D2 - D1)}{360}$$

where:

“Y1” is the year, expressed as a number, in which the first day of the Interest Reset Period falls;

“Y2” is the year, expressed as a number, in which the day immediately following the last day of the Interest Reset Period falls;

“M1” is the calendar month, expressed as a number, in which the first day of the Interest Reset Period falls;

“M2” is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Reset Period falls;

“D1” is the first calendar day, expressed as a number, of the Interest Reset Period, unless such number is 31, in which case D1 will be 30; and

“D2” is the calendar day, expressed as a number, immediately following the last day included in the Interest Reset Period, unless such number would be 31 and D1 is greater than 29, in which case D2 will be 30;

- (e) if “30E/360” or “Eurobond Basis” is specified in the applicable Pricing Supplement, the number of days in the Interest Reset Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y2 - Y1)] + [30 \times (M2 - M1)] + (D2 - D1)}{360}$$

where:

“Y1” is the year, expressed as a number, in which the first day of the Interest Reset Period falls;

“Y2” is the year, expressed as a number, in which the day immediately following the last day of the Interest Reset Period falls;

“M1” is the calendar month, expressed as a number, in which the first day of the Interest Reset Period falls;

“M2” is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Reset Period falls;

“D1” is the first calendar day, expressed as a number, of the Interest Reset Period, unless such number would be 31, in which case D1 will be 30; and

“D2” is the calendar day, expressed as a number, immediately following the last day included in the Interest Reset Period, unless such number would be 31, in which case D2 will be 30; and

- (f) if “30E/360 (ISDA)” is specified in the applicable Pricing Supplement, the number of days in the Interest Reset Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y2 - Y1)] + [30 \times (M2 - M1)] + (D2 - D1)}{360}$$

where:

“Y1” is the year, expressed as a number, in which the first day of the Interest Reset Period falls;

“Y2” is the year, expressed as a number, in which the day immediately following the last day of the Interest Reset Period falls;

“M1” is the calendar month, expressed as a number, in which the first day of the Interest Reset Period falls;

“M2” is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Reset Period falls;

“D1” is the first calendar day, expressed as a number, of the Interest Reset Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D1 will be 30; and

“D2” is the calendar day, expressed as a number, immediately following the last day included in the Interest Reset Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31, in which case D2 will be 30.

Unless otherwise specified in the applicable Pricing Supplement, the Floating Day Count Fraction in respect of the calculation of the Interest Amount on any Floating Rate Note will (a) in the case of a Note denominated in U.S. dollars, be Actual/360 or (b) in the case of a Note denominated in any other Specified Currency, be Actual/Actual. Notes for which the interest rate may be calculated with reference to two or more interest rate bases will be calculated in each period by selecting one such interest rate basis for such period. For these calculations, the interest rate in effect on any Interest Reset Date will be the new reset rate.

The calculation agent will round all percentages resulting from any calculation of the rate of interest on a Floating Rate Note to the nearest 1/100,000 of 1% (0.0000001), with five one-millionths of a percentage point rounded upward (e.g., 9.876545% (or 0.09876545) would be rounded to 9.87655% (or 0.0987655)) and the calculation agent will round all currency amounts used in or resulting from any calculation to the nearest one-hundredth of a unit (with 0.005 of a unit being rounded upward).

The calculation agent will promptly, and no later than the fourth Business Day of the relevant Interest Reset Period, notify the applicable Trustee and the Bank of each determination of the interest rate. The calculation agent will also notify the applicable Trustee, the Bank and the relevant paying agents of the interest rate, the Interest Amount, the interest period and the Interest Payment Date related to each Interest Reset Date as soon as such information is available, and no later than the first Business Day of the relevant Interest Reset Period. The relevant paying agents will make such information available to the holders of Notes. The applicable Trustee will, upon the request of the holder of any Floating Rate Note, provide the interest rate then in effect and, if determined, the interest rate which will become effective as a result of a determination made with respect to the most recent Interest Determination Date relating to such Note.

When Interest Is Paid

The Bank will pay interest on Floating Rate Notes on the Interest Payment Dates specified in the applicable Pricing Supplement. The Bank will also pay interest on the relevant Floating Rate Notes at the Maturity Date.

If any Interest Payment Date (other than the Maturity Date) for Floating Rate Notes (including, in the case of a Fixed/Floating Rate Note or a Floating/Fixed Rate Note, an Interest Payment Date during the floating rate period, but excluding an Interest Payment Date during the “Fixed Rate Period” specified in the applicable Pricing Supplement) falls on a day that is not a Business Day, the Bank will postpone payment of interest to the following Business Day at which time the Issuer will pay additional interest that has accrued up to (but excluding) such following Business Day, except that if that Business Day would fall in the next calendar month, the Interest Payment Date will be the immediately preceding Business Day.

If the Maturity Date for a Floating Rate Note falls on a day that is not a Business Day, the Bank will make the payment on the next Business Day, without additional interest.

Date of Interest Rate Determination

The interest rate for each Interest Reset Period commencing on the Interest Reset Date will be the rate determined on the relevant Interest Determination Date for such Interest Reset Date for the relevant type of Floating Rate Note, as set forth in the relevant Pricing Supplement.

Types of Floating Rate Notes

CD Rate Notes

Each CD Rate Note will bear interest at a specified rate that will be reset periodically based on the CD Rate and the Spread and/or Spread Multiplier, if any, specified in the CD Rate Note and in the applicable Pricing Supplement. CD Rate Notes will be subject to the Minimum Interest Rate and the Maximum Interest Rate, if any.

Unless otherwise specified in the applicable Pricing Supplement, “**CD Rate**” means, with respect to any Interest Determination Date, the rate on that Interest Determination Date for negotiable U.S. dollar certificates of deposit having the specified Index Maturity as published in H.15 under the heading “CDs (Secondary Market).”

The following procedures will apply if the CD Rate cannot be determined as described above:

- (a) If the rate described above is not published in H.15 prior to 3:00 p.m. (New York City time) on the relevant Interest Determination Date, then the CD Rate will be the rate on that Interest Determination Date for negotiable U.S. dollar certificates of deposit having the specified Index Maturity as published in H.15 Daily Update, or such other recognized electronic source used for the purpose of displaying such rate, under the caption “CDs (Secondary Market).”
- (b) If the rate is not published in H.15, H.15 Daily Update or another recognized electronic source by 3:00 p.m. (New York City time) on the Interest Determination Date, the CD Rate will be the average of the secondary market offered rates as of 10:00 a.m. (New York City time) on that Interest Determination Date of three leading non-bank dealers of negotiable U.S. dollar certificates of deposit in The City of New York (which may include one or more of the Dealers or their affiliates) selected by the Bank and identified to the calculation agent, for negotiable U.S. dollar certificates of deposit of major U.S. money market banks for negotiable certificates of deposit with a remaining maturity closest to the specified Index Maturity in an amount that is representative for a single transaction in that market at that time.
- (c) If fewer than three dealers are providing quotes, the rate will be (i) except as provided in clause (ii), the CD Rate in effect for the immediately preceding Interest Reset Period, or (ii) for a Fixed/Floating Rate Note, if there was no preceding Interest Reset Period, then the rate of interest payable will be the rate for negotiable U.S. dollar certificates of deposit having the specified Index Maturity that was last published in H.15 under the heading “CDs (Secondary Market)” as determined by the calculation agent.

“**H.15**” means the publication entitled “Statistical Release H.15, Selected Interest Rates,” or any successor publication published by the Federal Reserve.

“**H.15 Daily Update**” means the daily update of H.15, available through the website of the Federal Reserve at <https://www.federalreserve.gov/releases/h15/> or any successor service.

Commercial Paper Rate Notes

Each Commercial Paper Rate Note will bear interest at a specified rate that will be reset periodically based on the Commercial Paper Rate and the Spread and/or Spread Multiplier, if any, specified in the Commercial Paper Rate Note and in the applicable Pricing Supplement. Commercial Paper Rate Notes will be subject to the Minimum Interest Rate and the Maximum Interest Rate, if any.

Unless otherwise specified in the applicable Pricing Supplement, “**Commercial Paper Rate**” means, with respect to any Interest Determination Date, the Money Market Yield of the rate on that Interest Determination Date for commercial paper having the specified Index Maturity as published in H.15 under the heading “Commercial Paper Nonfinancial.”

Unless otherwise specified in the applicable Pricing Supplement, the following procedures will apply if the rate cannot be set as described above:

- (a) If the rate described above is not published in H.15 prior to 3:00 p.m. (New York City time) on the relevant Interest Determination Date, then the Commercial Paper Rate will be the Money Market Yield of the rate on that Interest Determination Date for commercial paper having the specified Index Maturity as published in H.15 Daily Update, or such other recognized electronic source used for the purpose of displaying such rate, under the caption “Commercial Paper Nonfinancial.”
- (b) If the rate is not published in H.15, H.15 Daily Update or another recognized electronic source by 3:00 p.m. (New York City time) on the Interest Determination Date, then the calculation agent will determine the Commercial Paper Rate to be the Money Market Yield of the average for the offered rates as of 11:00 a.m. (New York City time) on that Interest Determination Date, of three leading dealers (which may include one or more of the Dealers or their affiliates) of commercial paper in The City of New York, selected by the Bank and identified to the calculation agent, for commercial paper having the specified Index Maturity placed for an industrial issuer whose bond rating is “AA,” or the equivalent, by a nationally recognized statistical rating agency.
- (c) If fewer than three dealers are providing quotes, the rate will be (i) except as provided in clause (ii), the Commercial Paper Rate in effect for the immediately preceding Interest Reset Period, or (ii) for a Fixed/Floating Rate Note, if there was no preceding Interest Reset Period, then the rate of interest payable will be the rate for commercial paper having the specified Index Maturity that was last published in H.15 under the heading “Commercial Paper Nonfinancial” as determined by the calculation agent.

“**Money Market Yield**” means a yield (expressed as a percentage) calculated in accordance with the following formula:

$$\text{Money Market Yield} = \frac{D \times 360 \times 100}{360 - (D \times M)}$$

where “D” refers to the applicable per annum rate for commercial paper quoted on a bank discount basis and expressed as a decimal and “M” refers to the actual number of days in the period for which interest is being calculated.

Constant Maturity Treasury (CMT) Rate Notes

Each CMT Rate Note will bear interest at a specified rate that will be reset periodically based on the CMT Rate and the Spread and/or Spread Multiplier, if any, specified in the CMT Rate Notes and in the applicable Pricing Supplement. CMT Rate Notes will be subject to the Minimum Interest Rate and the Maximum Interest Rate, if any.

Unless otherwise specified in the applicable Pricing Supplement, “**CMT Rate**” means, with respect to any Interest Determination Date relating to a CMT Rate Note:

- (a) If “Reuters Page FRBCMT” is the specified CMT Reuters Page in the applicable Pricing Supplement, the CMT Rate on the Interest Determination Date shall be a percentage equal to the yield for U.S. Treasury securities at “constant maturity” having the index maturity specified in the applicable Pricing Supplement as set forth in H.15 (as defined below) under the caption “Treasury Constant Maturities,” as such yield is displayed on Reuters (or any successor service) on page

FRBCMT (or any other page as may replace such page on such service) (“**Reuters Page FRBCMT**”) for such Interest Determination Date. Unless otherwise specified in the applicable Pricing Supplement, the following procedures will apply if the rate cannot be set as described above:

- (i) If such rate does not appear on Reuters Page FRBCMT, the CMT Rate on such Interest Determination Date shall be a percentage equal to the yield for U.S. Treasury securities at “constant maturity” having the index maturity specified in the applicable Pricing Supplement and for such Interest Determination Date as set forth in H.15 under the caption “Treasury Constant Maturities.”
- (ii) If such rate does not appear in H.15, the CMT Rate on such Interest Determination Date shall be the rate for the period of the index maturity specified in the applicable Pricing Supplement as may then be published by either the Federal Reserve or the U.S. Department of the Treasury that the calculation agent determines to be comparable to the rate that would otherwise have been published in H.15.
- (iii) If the Federal Reserve or the U.S. Department of the Treasury does not publish a yield on U.S. Treasury securities at “constant maturity” having the index maturity specified in the applicable Pricing Supplement for such Interest Determination Date, the CMT Rate on such Interest Determination Date shall be calculated by the calculation agent and shall be a yield-to-maturity based on the arithmetic mean of the secondary market bid prices at approximately 3:30 p.m. (New York City time) on such Interest Determination Date of three leading primary U.S. government securities dealers in New York City (which may include one or more of the Dealers or their affiliates) (each, a “**reference dealer**”) selected by the Bank and identified to the calculation agent (from five such reference dealers selected by the Bank and identified to the calculation agent and eliminating the highest quotation (or, in the event of equality, one of the highest) and the lowest quotation (or, in the event of equality, one of the lowest)) for U.S. Treasury Federal Funds Rate Notes securities with an original maturity equal to the specified Index Maturity, a remaining term to maturity no more than one year shorter than such Index Maturity and in a principal amount that is representative for a single transaction in such securities in such market at such time.
- (iv) If fewer than five but more than two such prices are provided as requested, the CMT Rate on such Interest Determination Date shall be calculated by the calculation agent and shall be based on the arithmetic mean of the bid prices obtained and neither the highest nor the lowest of such quotations shall be eliminated. If fewer than three prices are provided as requested, the CMT Rate on such Interest Determination Date shall be calculated by the calculation agent and shall be a yield-to-maturity based on the arithmetic mean of the secondary market bid prices as of approximately 3:30 p.m. (New York City time) on such Interest Determination Date of three reference dealers selected by the Bank and identified to the calculation agent (from five such reference dealers selected by the Bank and identified to the calculation agent and eliminating the highest quotation (or, in the event of equality, one of the highest) and the lowest quotation (or, in the event of equality, one of the lowest)) for U.S. Treasury securities with an original maturity greater than the index maturity specified in the applicable Pricing Supplement, a remaining term to maturity closest to such index maturity and in a principal amount that is representative for a single transaction in such securities in such market at such time.
- (v) If fewer than five but more than two such prices are provided as requested, the CMT Rate on such Interest Determination Date shall be calculated by the calculation agent and shall be based on the arithmetic mean of the bid prices obtained and neither the highest nor the lowest of such quotations shall be eliminated; *provided, however*, that if fewer than three such prices are provided as requested, the CMT Rate determined as of such Interest Determination Date shall be the CMT Rate in effect on such Interest Determination Date. If two such U.S. Treasury securities with an original maturity greater than the index maturity specified in the applicable Pricing Supplement have remaining terms to maturity

equally close to such index maturity, the quotes for the U.S. Treasury security with the shorter original term to maturity will be used.

- (b) If “Reuters Page FEDCMT” is the specified CMT Reuters Page in the applicable Pricing Supplement, the CMT Rate on the Interest Determination Date shall be a percentage equal to the one-week or one-month, as specified in the applicable Pricing Supplement, average yield for U.S. Treasury securities at “constant maturity” having the index maturity specified in the applicable Pricing Supplement as set forth in H.15 opposite the caption “Treasury Constant Maturities,” as such yield is displayed on Reuters on page FEDCMT (or any other page as may replace such page on such service) (“**Reuters Page FEDCMT**”) for the week or month, as applicable, ended immediately preceding the week or month, as applicable, in which such Interest Determination Date falls. If such rate does not appear on Reuters Page FEDCMT, the CMT Rate on such Interest Determination Date shall be a percentage equal to the one-week or one-month, as specified in the applicable Pricing Supplement, average yield for U.S. Treasury securities at “constant maturity” having the index maturity specified in the applicable Pricing Supplement for the week or month, as applicable, preceding such Interest Determination Date as set forth in H.15 opposite the caption “Treasury Constant Maturities.” Unless otherwise specified in the applicable Pricing Supplement, the following procedures will apply if the rate cannot be set as described above:
- (i) If such rate does not appear in H.15, the CMT Rate on such Interest Determination Date shall be the one-week or one-month, as specified in the applicable Pricing Supplement, average yield for U.S. Treasury securities at “constant maturity” having the index maturity specified in the applicable Pricing Supplement as otherwise announced by the Federal Reserve Bank of New York for the week or month, as applicable, ended immediately preceding the week or month, as applicable, in which such Interest Determination Date falls.
 - (ii) If the Federal Reserve Bank of New York does not publish a one-week or one-month, as specified in the applicable Pricing Supplement, average yield on U.S. Treasury securities at “constant maturity” having the index maturity specified in the applicable Pricing Supplement for the applicable week or month, the CMT Rate on such Interest Determination Date shall be calculated by the calculation agent and shall be a yield-to-maturity based on the arithmetic mean of the secondary market bid prices at approximately 3:30 p.m. (New York City time) on such Interest Determination Date of three reference dealers selected by the Bank and identified to the calculation agent (from five such reference dealers selected by the Bank and eliminating the highest quotation (or, in the event of equality, one of the highest) and the lowest quotation (or, in the event of equality, one of the lowest)) for U.S. Treasury securities with an original maturity equal to the index maturity specified in the applicable Pricing Supplement, a remaining term to maturity of no more than one year shorter than such index maturity and in a principal amount that is representative for a single transaction in such securities in such market at such time.
 - (iii) If fewer than five but more than two such prices are provided as requested, the CMT Rate on such Interest Determination Date shall be the rate on the Interest Determination Date calculated by the calculation agent based on the arithmetic mean of the bid prices obtained and neither the highest nor the lowest of such quotation shall be eliminated.
 - (iv) If fewer than three prices are provided as requested, the CMT Rate on such Interest Determination Date shall be calculated by the calculation agent and shall be a yield-to-maturity based on the arithmetic mean of the secondary market bid prices as of approximately 3:30 p.m. (New York City time) on such Interest Determination Date of three reference dealers selected by the Bank and identified to the calculation agent (from five such reference dealers selected by the Bank and identified to the calculation agent and eliminating the highest quotation (or, in the event of equality, one of the highest) and the lowest quotation (or, in the event of equality, one of the lowest)) for U.S. Treasury securities with an original maturity longer than the index maturity specified in the applicable Pricing Supplement, a remaining term to maturity closest to such index maturity

and in a principal amount that is representative for a single transaction in such securities in such market at such time.

- (v) If fewer than five but more than two such prices are provided as requested, the CMT Rate on such Interest Determination Date shall be the rate on the Interest Determination Date calculated by the calculation agent based on the arithmetic mean of the bid prices obtained and neither the highest nor lowest of such quotations shall be eliminated; *provided, however,* that if fewer than three such prices are provided as requested, the CMT Rate determined as of such CMT Rate determination date shall be the CMT Rate in effect on such Interest Determination Date. If two U.S. Treasury securities with an original maturity greater than the index maturity specified in the applicable Pricing Supplement have remaining terms to maturity equally close to such index maturity, the quotes for the U.S. Treasury security with the shorter original term to maturity will be used.

Federal Funds Rate Notes

Each Federal Funds Rate Note will bear interest at a specified rate that will be reset periodically based on the Federal Funds Rate and the Spread and/or Spread Multiplier, if any, specified in the Federal Funds Rate Note and in the applicable Pricing Supplement. Federal Funds Rate Notes will be subject to the Minimum Interest Rate and the Maximum Interest Rate, if any.

Unless otherwise specified in the applicable Pricing Supplement, “**Federal Funds Rate**” means, with respect to any Interest Determination Date, the rate on specified dates for federal funds published in H.15 prior to 3:00 p.m. (New York City time) under the heading “Federal Funds Effective,” as such rate is displayed on Reuters Screen FEDFUNDS1 Page (or any such other page as specified in the applicable Pricing Supplement).

The following procedures will apply if the rate cannot be set as described above:

- (a) If the rate described above does not appear on Reuters Screen FEDFUNDS1 Page (or any other pages as may replace such pages on such service) or is not published in H.15 prior to 3:00 p.m. (New York City time) on the Interest Determination Date, then the Federal Funds Rate will be the rate on such Interest Determination Date published in H.15 Daily Update, or such other recognized electronic source used for the purpose of displaying such rate, under the caption “Federal Funds (Effective).”
- (b) If the rate does not appear on Reuters Screen FEDFUNDS1 Page (or any other pages as may replace such pages on such service) or is not published in H.15, H.15 Daily Update or another recognized electronic source by 3:00 p.m. (New York City time) on the Interest Determination Date, the Federal Funds Rate will be calculated by the calculation agent and will be the average of the rates on that Interest Determination Date for the last transaction in overnight U.S. dollar federal funds arranged by three leading brokers of U.S. dollar federal funds transactions in The City of New York (which may include one or more of the Dealers or their affiliates) selected by the Bank and identified to the calculation agent, prior to 9:00 a.m. (New York City time) on the Business Day following such Interest Determination Date.
- (c) If fewer than three brokers are providing quotes, the Federal Funds Rate will be (i) except as provided in clause (ii), the Federal Funds Rate in effect on such Interest Determination Date, and (ii) for a Fixed/Floating Rate Note, if there was no preceding Interest Reset Date, the rate for U.S. dollar federal funds as published in H.15 opposite the caption “Federal Funds (Effective),” as such rate was last displayed on Reuters Screen FEDFUNDS1 Page as determined by the calculation agent.

EURIBOR Notes

Each EURIBOR Note will bear interest at a specified rate that will be reset periodically based on EURIBOR and the Spread and/or Spread Multiplier, if any, specified on the face of the EURIBOR Note and in the applicable Pricing Supplement. EURIBOR Notes will be subject to the Minimum Interest Rate and the Maximum Interest Rate, if any.

Unless otherwise specified in the applicable Pricing Supplement, “**EURIBOR**” means the European Interbank Offered Rate and, with respect to each Interest Determination Date relating to a EURIBOR Note will be the

rate for deposits in Euro having the Index Maturity, beginning on the second TARGET Business Day after the relevant Interest Determination Date, as that rate appears on the Designated EURIBOR Page as of 11:00 a.m., Brussels time, on that Interest Determination Date.

The following procedures will apply if the rate cannot be set as described above:

- (a) If such rate does not appear on the Designated EURIBOR Page as of 11:00 a.m., Brussels time, on the relevant Interest Determination Date, then EURIBOR will be determined on the basis of the rates, at approximately 11:00 a.m., Brussels time, on that Interest Determination Date, at which deposits in Euro having the specified Index Maturity, beginning on the relevant Interest Reset Date and in a representative amount are offered to prime banks in the Euro-zone interbank market by the principal Euro-zone offices of four major banks (one of which may be an affiliate of the calculation agent) in the Euro-zone selected by the Bank. If at least two quotations are provided, EURIBOR for that Interest Determination Date will be the average (rounded upwards, if necessary) of the quotations.
- (b) If fewer than two quotations are provided, EURIBOR for the relevant Interest Determination Date will be the average (rounded upwards, if necessary) of the rates quoted by three major banks (which may include an affiliate of the calculation agent) in the Euro-zone, selected by the calculation agent, at approximately 11:00 a.m., Brussels time, on that Interest Determination Date for loans in Euro to leading European banks for a period of time corresponding to the Index Maturity beginning on the relevant Interest Reset Date and in a representative amount.
- (c) If fewer than three banks are quoting such rates as described above, EURIBOR for such Interest Determination Date will be (i) except as provided in clause (ii), EURIBOR in effect on such Interest Determination Date, and (ii) for a Fixed/Floating Rate Note, if there was no preceding Interest Reset Date, EURIBOR will be equal to EURIBOR for deposits in Euro having the specified Index Maturity that was last available on the Designated EURIBOR Page as determined by the calculation agent.

“**Designated EURIBOR Page**” means Reuters Page EURIBOR01, or any other page as may replace such page on such service.

Treasury Rate Notes

Each Treasury Rate Note will bear interest at a specified rate that will be revised periodically based on the Treasury Rate and the Spread and/or Spread Multiplier, if any, specified on the face of the Treasury Rate Note and in the applicable Pricing Supplement. Treasury Rate Notes will be subject to the Minimum Interest Rate and the Maximum Interest Rate, if any.

Unless otherwise specified in the applicable Pricing Supplement, “**Treasury Rate**” means, with respect to any Interest Determination Date, the rate for the most recent auction of direct obligations of the United States (“**Treasury bills**”) having the specified Index Maturity as it appears under the caption “**INVEST RATE**” on either Reuters Screen USAUCTION10 Page or Reuters Screen USAUCTION11 Page (or any other pages as may replace such pages on such service).

The following procedures will apply if the rate cannot be set as described above:

- (a) If the rate is not so published by 3:00 p.m. (New York City time) on the Interest Determination Date, the rate will be the auction average rate for such Treasury bills (expressed as a bond equivalent, on the basis of a year of 365 or 366 days as applicable, and applied on a daily basis) for such auction as otherwise announced by the U.S. Department of the Treasury.
- (b) If the results of the auction of Treasury bills are not so published by 3:00 p.m. (New York City time) on the Interest Determination Date, or if no such auction is held, the Treasury Rate will be the rate (expressed as a bond equivalent on the basis of a year of 365 or 366 days, as applicable, and applied on a daily basis) on such Interest Determination Date of such Treasury bills having the specified Index Maturity as published in H.15 under the caption “U.S. Government Securities/Treasury Bills/Secondary Market.”
- (c) If such rate is not so published in H.15 by 3:00 p.m. (New York City time) on the related Interest Determination Date, the rate on such Interest Determination Date of such Treasury bills will be as

published in H.15 Daily Update, or such other recognized electronic source used for the purpose of displaying such rate, under the caption “U.S. Government Securities/Treasury Bills/ Secondary Market.”

- (d) If such rate is not yet published in H.15, H.15 Daily Update or another recognized electronic source, then the Treasury Rate will be a yield to maturity (expressed as a bond equivalent on the basis of a year of 365 or 366 days, as applicable, and applied on a daily basis) of the average of the secondary market bid rates as of approximately 3:30 p.m. (New York City time) on the Interest Determination Date, of three leading primary U.S. government securities dealers in The City of New York selected by the Bank and identified to the calculation agent for the issue of Treasury bills with a remaining maturity closest to the specified Index Maturity.
- (e) If fewer than three dealers are providing quotes, the Treasury Rate will be (i) except as provided in clause (ii), the Treasury Rate in effect on such Interest Determination Date, and (ii) for a Fixed/Floating Rate Note, if there was no preceding Interest Reset Date, the rate from the latest auction of Treasury bills having the specified Index Maturity, as such rate was last displayed under the caption “INVEST RATE” on either Reuters Screen USAUCTION10 Page or Reuters Screen USAUCTION11 Page (or any other pages as may replace such pages on such service).

Prime Rate Notes

Each Prime Rate Note will bear interest at a specified rate that will be reset periodically based on the Prime Rate and the Spread and/or Spread Multiplier, if any, specified on the face of the Prime Rate Note and in the applicable Pricing Supplement. Prime Rate Notes will be subject to the Minimum Interest Rate and the Maximum Interest Rate, if any.

Unless otherwise specified in the applicable Pricing Supplement, “**Prime Rate**” means, with respect to any Interest Determination Date, the rate set forth on that Interest Determination Date in H.15 under the heading “Bank Prime Loan.”

The following procedures will apply if the rate cannot be set as described above:

- (a) If the rate described above is not published in H.15 by 3:00 p.m. (New York City time) on the relevant Interest Determination Date, then the Prime Rate for that Interest Determination Date will be the rate as published on such Interest Determination Date in H.15 Daily Update, or such other recognized electronic source used for the purpose of displaying such rate, under the caption “Bank Prime Loan.”
- (b) If the rate is not published in H.15, H.15 Daily Update or another recognized electronic source by 3:00 p.m. (New York City time) on the Interest Determination Date, then the Prime Rate will be the average (rounded upwards, if necessary, to the next higher one-hundred thousandth of a percentage point) calculated by the calculation agent of the rates publicly announced by each bank on the Reuters Screen USPRIME1 Page as its prime rate or base lending rate for that Interest Determination Date.
- (c) If fewer than four, but more than one, rates appear on the Reuters Screen USPRIME1 Page, the Prime Rate will be the average of the prime rates (quoted on the basis of the actual number of days in the year divided by a 360-day year) as of the close of business on the Interest Determination Date by four major money center banks (which may include one or more of the Dealers or their affiliates) in The City of New York selected by the Bank and identified to the calculation agent.
- (d) If fewer than two rates appear, the Prime Rate will be determined based on the rates furnished in The City of New York by the appropriate number of substitute banks or trust companies organized and doing business under the laws of the United States, or any state thereof, having total equity capital of at least U.S.\$500 million and being subject to supervision or examination by a federal or state authority, as selected by the Bank and identified to the calculation agent.
- (e) If no banks are providing quotes, the Prime Rate will be (i) except as provided in clause (ii), the Prime Rate in effect on such Interest Determination Date, and (ii) for a Fixed/Floating Rate Note, if there was no preceding Interest Reset Date, the rate that was last published in H.15 under the caption “Bank Prime Loan” as determined by the calculation agent.

Other Types of Notes

Indexed Notes

Notes also may be issued with the principal amount payable on the Maturity Date or interest to be paid thereon, or both, to be determined with reference to the price or prices of specified commodities or securities, baskets of securities, indices of securities, stocks, the exchange rate of one or more specified currencies relative to an indexed currency or other formulae, assets or bases of reference, as may be specified in such Note and the applicable Pricing Supplement (“**Indexed Notes**”).

Holders of such Indexed Notes may receive a principal amount on the Maturity Date that is greater than or less than the face amount of the Indexed Notes, or an interest rate that is greater than or less than the stated interest rate on the Indexed Notes, or both, depending upon the structure of the Indexed Note and the relative value on the Maturity Date or at the relevant Interest Payment Date, as the case may be, of the specified index or indexed item. Information as to the method for determining the principal amount payable on the Maturity Date, the currency base rate, the manner of determining the interest rate, the determination agent, certain historical information with respect to the specified indexed item and tax considerations associated with an investment in Indexed Notes will be set forth in the applicable Pricing Supplement.

A separate prospectus comprising the relevant Note and a summary document (as the case may be) will be used for the documentation of an issuance of Indexed Notes, including, but not limited to a discussion of market and settlement disruptions and adjustments.

An investment in Indexed Notes entails significant risks that are not associated with similar investments in a conventional fixed-rate debt security. For further information regarding certain risks inherent in Indexed Notes, see “Risk Factors—Risks Relating to the Notes—Indexed notes.”

Extendible Notes

Notes may be issued with an initial Maturity Date (the “**Initial Maturity Date**”) which may be extended from time to time upon the election of the holders on specified dates (each, an “**Election Date**”) up to a final Maturity Date (the “**Final Maturity Date**”) as set forth in the applicable Pricing Supplement (“**Extendible Notes**”). The Pricing Supplement relating to each issue of Extendible Notes will set forth the terms of such Notes, including the Initial Maturity Date, the Final Maturity Date and the Election Dates, and will also describe certain tax considerations associated with an investment in Extendible Notes, the manner in which holders may elect to extend the Notes and such other terms and conditions as may apply to such issue.

Dual Currency Notes

“**Dual Currency Notes**” are Notes for which the Issuer is permitted under certain specified circumstances to pay principal, premium (if any) and/or interest in more than one currency or composite currency. In general, the Issuer will have the option of making each scheduled payment of principal and interest due on the Notes in either (i) the currency in which the face amount of the Note is specified in the applicable Pricing Supplement (“**Face Amount Currency**”) or (ii) another currency specified in the applicable Pricing Supplement (“**Optional Payment Currency**”). If the Issuer chooses to make a payment in the Optional Payment Currency, the amount payable in the Optional Payment Currency will be determined by the person specified in the applicable Pricing Supplement using the exchange rate specified in such Pricing Supplement (the “**Designated Exchange Rate**”). The terms of any Dual Currency Notes will be as set forth in the applicable Pricing Supplement related to any such Notes, including the Face Amount Currency, the option value calculation agent, the Optional Payment Currency, the option election date(s) and the Designated Exchange Rate.

For further information regarding certain risks inherent in Notes denominated in currencies other than U.S. dollars, see “Risk Factors—Risks Relating to the Notes—There is exchange rate risk and risk of exchange controls associated with an investment in the Notes.”

Amortizing Notes

“**Amortizing Notes**” are Fixed Rate Notes for which payments combining principal and interest are made in installments over the life of the Note. Unless otherwise specified in the applicable Pricing Supplement, interest on each Amortizing Note will be computed on the basis of a 360-day year of twelve 30-day months. Payments with respect to Amortizing Notes will be applied first to interest due and payable thereon and then to the reduction of the unpaid principal amount thereof. Further information concerning additional terms and conditions of any issue of

Amortizing Notes, including the amortization schedule, will be provided in the applicable Pricing Supplement. A table setting forth repayment information in respect of each Amortizing Note will be included in the applicable Pricing Supplement and set forth on such Notes.

Original Issue Discount Notes

A Series of Notes may be issued as Original Issue Discount Notes. Certain additional considerations relating to a Series of Original Issue Discount Notes may be described in the applicable Pricing Supplement relating thereto.

Other Provisions

Any provisions with respect to Notes, including the determination of an interest rate basis, the specification of an interest rate basis, the calculation of the interest rate applicable to a Floating Rate Note, the Interest Payment Dates or any other matter relating thereto, may be modified by the terms specified in the applicable Pricing Supplement (and, in the case of Subordinated Notes, the relevant Subordinated Notes Indenture).

Certain Terms and Conditions Applicable to Senior Notes

Unless otherwise stated in the applicable Pricing Supplement, the following terms will apply to each Series of Senior Notes.

Ranking

The Senior Notes will rank *pari passu* without preference among themselves and with all the Bank's other Senior Indebtedness, as defined below. The Senior Notes will be effectively subordinated to (i) all of the Bank's secured indebtedness with respect to the value of its assets securing that indebtedness, (ii) certain direct, unconditional and unsecured general obligations that in case of the Bank's liquidation are granted preferential treatment pursuant to Mexican law and (iii) all of the existing and future liabilities of the Bank's subsidiaries, including trade payables.

For purposes of the Senior Notes:

- (a) The term “**Senior Indebtedness**” is defined in the Senior Notes Indenture to mean all Indebtedness for Money Borrowed, whether outstanding on the date of issuance of such Senior Notes or thereafter created, assumed or incurred, unless the terms thereof specifically provide that it is not superior in right of payment and in liquidation to the Subordinated Preferred Indebtedness or Subordinated Non-Preferred Indebtedness, and any deferrals, renewals or extensions of such Senior Indebtedness; and
- (b) The term “**Indebtedness for Money Borrowed**” is defined in the Senior Notes Indenture to mean any obligation of, or any obligation guaranteed by, the Bank (to the extent permitted under applicable law) for the repayment of borrowed money, whether or not evidenced by notes, debentures or other written instruments, but shall not include (i) any trade accounts payable in the ordinary course of business, (ii) any such indebtedness that by its terms ranks junior in right of payment and in liquidation to Senior Indebtedness, (iii) indebtedness to any of the Bank's employees, (iv) the Bank's indebtedness which, when incurred, was without recourse to the Bank, and (v) any other indebtedness that would otherwise qualify as Indebtedness for Money Borrowed to the extent that such indebtedness, by its terms, ranks *pari passu* with or junior in right of payment and in liquidation to any of the indebtedness described in clause (i) or (ii) above.

Events of Default, Notice and Waiver

Unless otherwise specified in the applicable Pricing Supplement under “Additional Events of Default,” an event of default with respect to a Series of Senior Notes (a “**Senior Notes Event of Default**”) is defined in the Senior Notes Indenture as:

- (a) a default in the timely payment of the principal due and payable of the Senior Notes of such Series under the Senior Notes Indenture; or
- (b) a default for thirty calendar days in the payment of interest or Additional Amounts due and payable on the Senior Notes of such Series under the Senior Notes Indenture; or
- (c) a default in the performance or observance of any other term, covenant, warranty, or obligation in respect of the Senior Notes of such Series under the Senior Notes Indenture, not otherwise expressly defined as an Senior Notes Event of Default in (a) or (b) above, and the continuance of such default

for more than sixty days after written notice of such default has been given to the Issuer by the Trustee or to the Bank and the Trustee by the holders of at least 25% in aggregate principal amount of Senior Notes of such Series outstanding specifying such default or breach and requiring it to be remedied and stating that such notice is a “Notice of Default”; or

- (d) certain events involving the Bank’s insolvency, liquidation (*liquidación*) or dissolution; or
- (e) if any of the Bank’s Indebtedness (as defined below) or that of its subsidiaries becomes due and repayable prematurely by reason of an event of default under such Indebtedness or the Bank or any of its subsidiaries fails to make any payment in respect of any Indebtedness on the due date for such payment or within any originally applicable grace period or any security given by the Bank or any of its subsidiaries for any Indebtedness becomes enforceable and steps are taken to enforce the same or if the Bank or any of its subsidiaries default in making any payment when due (or within any originally applicable grace period in respect thereof) under any guarantee and/or indemnity given by the Bank or such subsidiary (as the case may be) in relation to any Indebtedness of any other person; *provided* that no such event as aforesaid shall constitute a Senior Notes Event of Default unless such Indebtedness either alone or when aggregated with other Indebtedness in respect of which one or more of the events mentioned in this paragraph (e) has occurred shall amount to at least U.S.\$50,000,000 (or its equivalent in any other currency on the basis of the middle spot rate for any relevant currency against the U.S. dollar as quoted by any leading bank on the day on which this paragraph operates).

“Indebtedness” is defined in the Senior Notes Indenture to mean (a) money borrowed and premiums (if any) and accrued interest in respect thereof, (b) liabilities under or in respect of any acceptance or credit and (c) the principal and premium (if any) and accrued interest in respect of any bonds, notes, debentures, or other similar instrument.

For the avoidance of doubt, in the case of SDG Notes, if the net proceeds of such SDG Notes are not used, any report, assessment, opinion or certification is not obtained or published, or any other step or action not taken, in each case as set out and described in the “Use of Proceeds” section of this Offering Memorandum, as so supplemented, in connection with the offering of such SDG Notes, such occurrence shall not constitute a Senior Notes Event of Default.

The Senior Notes Indenture provides that (i) if a Senior Notes Event of Default (other than a Senior Notes Event of Default described in clause (d) above) shall have occurred and be continuing with respect to a Series of Senior Notes, either the Trustee or the holders of not less than 25% of the total principal amount of Senior Notes of such Series then outstanding may declare the principal of all outstanding Senior Notes of such Series and the interest accrued thereon, if any, to be due and payable immediately and (ii) if a Senior Notes Event of Default described in clause (d) above shall have occurred, the principal of all outstanding Senior Notes of such Series and the interest accrued thereon, if any, shall become and be immediately due and payable without any declaration or other act on the part of the Trustee or any holder of such Senior Notes of such Series. The Senior Notes Indenture provides that the Senior Notes of such Series owned by the Bank or any of the Bank’s affiliates shall be deemed not to be outstanding for, among other purposes, declaring the acceleration of the maturity of the Senior Notes of such Series. Upon the satisfaction by the Bank of certain conditions, the declaration described in clause (i) of this paragraph may be annulled by the holders of a majority of the total principal amount of Senior Notes of such Series then outstanding. Past defaults with respect to any Series of Notes, other than non-payment of principal, interest and compliance with certain covenants, may be waived by the holders of a majority of the total principal amount of Senior Notes of such Series outstanding.

Holders may not enforce the Senior Notes Indenture or the Senior Notes of such Series except as provided in the Senior Notes Indenture. The holder of any Senior Note, however, will have the right to receive payment of the principal of and interest on that Senior Note on or after the due dates, the redemption dates or the Maturity Date expressed in the Senior Notes Indenture or such Senior Note and, subject to certain limitations and conditions, to institute a lawsuit for the enforcement of any such payment on or after such respective dates.

The Trustee may refuse to enforce the Senior Notes Indenture or the Senior Notes unless it receives indemnity or security satisfactory to it. Subject to certain limitations, holders of a majority in principal amount of the outstanding Senior Notes of a Series may direct the Trustee under the Senior Notes Indenture in its exercise of any trust or power in respect thereof. The Trustee may withhold from holders notice of any continuing Senior Notes Event of Default

(except a default in payment of principal or interest) if the Trustee in good faith determines that withholding notice is in their interest.

Under the Senior Notes Indenture, the Bank must furnish the Trustee annually with a statement regarding any default in the performance of its obligations thereunder.

Modification of the Senior Notes Indenture; Waiver of Covenants

The Bank and the Trustee may, without the consent of any holder of Senior Notes of a Series, amend, waive or supplement the Senior Notes Indenture or the Senior Notes of such Series in certain circumstances, including, among other things, to cure any ambiguity, omission, defect or inconsistency, to conform the text of the Senior Notes Indenture or the Senior Notes of such Series to any provision in this “Description of the Notes” or the relevant Pricing Supplement distributed to holders of a Series and to make any change that does not adversely affect the rights of any relevant holder in any material respect. In addition, the Bank and the Trustee may amend, waive or supplement the Senior Notes Indenture or the Senior Notes of such Series with the written consent of the holders of at least a majority in aggregate principal amount of the outstanding Senior Notes of such Series. However, without the consent of the holder of each Senior Note of a Series affected thereby, the Bank may not, among other things:

- reduce the percentage in principal amount of outstanding Senior Notes of such Series that is required for the consent of the holders in order to modify or amend the Senior Notes Indenture or to waive compliance with some provisions of the Senior Notes Indenture or to waive some defaults.
- reduce the rate of or change or have the effect of changing the time for payment of interest, including applicable Amount in Arrears (as defined in the Senior Notes Indenture), on any Notes of such Series or change in any adverse respect the obligation of the Bank to pay Additional Amounts in respect of such Series of Notes;
- reduce the principal of or change or have the effect of changing the maturity date of any Senior Notes of such Series, or change the date on which any Senior Notes of such Series may be subject to redemption, or reduce the redemption price therefor;
- change the currency of payment of principal or interest on any Senior Note of such Series;
- modify any other payment provision of any Senior Note of such Series; or
- make any change in the provisions of the Senior Notes Indenture entitling each holder of such Series of Notes to receive payment of principal of and interest on such Notes of such Series on or after the due date thereof or to bring suit to enforce such payment, or permitting holders of a majority in principal amount of outstanding Senior Notes of such Series to waive certain events of default under the Senior Notes Indenture.

The holders of a majority in aggregate principal amount of the outstanding Senior Notes of a Series may waive any past default or Senior Notes Event of Default under the Senior Notes Indenture with respect to such Series, except a default under a provision that cannot be modified without the consent of each holder of a Senior Note of such Series that would be affected.

Certain Terms and Conditions Applicable to Subordinated Notes

Unless otherwise stated in the applicable Pricing Supplement, the following terms will apply to each Series of Subordinated Notes.

Ranking

Unless otherwise stated in the applicable Pricing Supplement, each Subordinated Notes Indenture will provide that any Series of Subordinated Notes will constitute Subordinated Preferred Indebtedness (*obligaciones subordinadas preferentes*) and will rank (i) subordinated and junior to all of the Bank’s present and future Senior Indebtedness, (ii) *pari passu* with all other present or future Subordinated Preferred Indebtedness and (iii) senior to Subordinated Non-Preferred Indebtedness (*obligaciones subordinadas no preferentes*) and all classes of the Bank’s capital stock. No payment of principal, premium, if any, or interest on the Subordinated Notes may be made at any time when (1) any Senior Indebtedness is not paid when due and any applicable grace period with respect to such default has ended and such default has not been cured or waived or ceased to exist, or (2) the maturity of any Senior Indebtedness has been accelerated because of a default.

In the event of the acceleration of the maturity of a Series of Subordinated Notes due to the Bank's insolvency or liquidation and upon any distribution of assets to creditors upon any liquidation, dissolution, winding up, reorganization, assignment for the benefit of creditors, marshaling of assets or any bankruptcy, insolvency, *liquidación, resolución, concurso mercantil* or similar proceedings in connection with the Bank's insolvency or bankruptcy, (1) all principal, premium, if any, and interest due or to become due on all Senior Indebtedness must be paid in full before the holders of Subordinated Preferred Indebtedness (including the Subordinated Notes) are entitled to receive or retain any payment in respect thereof, and (2) the holders of unsecured Subordinated Preferred Indebtedness (including the Subordinated Notes) will be entitled to receive *pari passu* among themselves any payment in respect thereof. The Subordinated Notes and all other Subordinated Preferred Indebtedness will be senior to the Bank's Subordinated Non-Preferred Indebtedness and all classes of its capital stock.

Unless otherwise stated in the applicable Pricing Supplement, each Subordinated Notes Indenture will provide that:

- (a) The term “**Senior Indebtedness**” will mean all Indebtedness for Money Borrowed, whether outstanding on the date of issuance of such Subordinated Notes or thereafter created, assumed or incurred, unless the terms thereof specifically provide that it is not superior in right of payment and in liquidation to the Subordinated Preferred Indebtedness (including the Subordinated Notes) or Subordinated Non-Preferred Indebtedness, and any deferrals, renewals or extensions of such Senior Indebtedness;
- (b) The term “**Subordinated Preferred Indebtedness**” (including the relevant Series of Subordinated Notes) will mean all Indebtedness for Money Borrowed, whether outstanding on the date of execution of such Subordinated Notes Indenture or thereafter created, assumed or incurred, which terms specifically provide that it is junior in right of payment and in liquidation to Senior Indebtedness, but is senior in right of payment and in liquidation to Subordinated Non-Preferred Indebtedness and all classes of the Bank's capital stock, and any deferrals, renewals or extensions of such Subordinated Preferred Indebtedness;
- (c) The term “**Subordinated Non-Preferred Indebtedness**” will mean all Indebtedness for Money Borrowed, whether outstanding on the date of execution of the relevant Subordinated Notes Indenture or thereafter created, assumed or incurred, which terms specifically provide that it is junior in right of payment and in liquidation to Senior Indebtedness and Subordinated Preferred Indebtedness, but is senior in right of payment and in liquidation to all classes of the Bank's capital stock, and any deferrals, renewals or extensions of such Subordinated Non-Preferred Indebtedness; and
- (d) The term “**Indebtedness for Money Borrowed**” will mean any obligation of, or any obligation guaranteed by the Bank (to the extent permitted under applicable law) for the repayment of borrowed money, whether or not evidenced by notes, debentures or other written instruments, but shall not include (i) any trade accounts payable in the ordinary course of business, (ii) any such indebtedness that by its terms ranks junior in right of payment and in liquidation to Subordinated Non-Preferred Indebtedness, (iii) indebtedness to any of the Bank's employees, (iv) the Bank's indebtedness which, when incurred, was without recourse to it, and (v) any other indebtedness that would otherwise qualify as Indebtedness for Money Borrowed to the extent that such indebtedness, by its terms, ranks *pari passu* with or junior in right of payment and in liquidation to any of the indebtedness described in clause (a) or (b) above.

Treatment of Interest and Principal During a Suspension Period

Deferral of Interest and Principal Payments

The Issuer has the right to and will defer, but not cancel (except pursuant to one or more Write-Downs), the payment of interest due on each Series of Subordinated Notes and defer, but not cancel (except pursuant to one or more Write-Downs), the payment of principal thereof for the duration of any Suspension Period (see “—Suspension Periods”). In the event of a deferral of the payment of interest on a Series of Subordinated Notes or deferral of payment of principal thereof, the Issuer will notify the holders of such Series of Subordinated Notes and the Trustee in accordance with the procedures described in the applicable Subordinated Notes Indenture. Payments of interest due on each Series of Subordinated Notes will be cumulative, so that if payments of interest are deferred during a Suspension Period and subject to the occurrence of one or more Write-Downs, holders of such Series of Subordinated

Notes will have the right to receive following the termination of the Suspension Period all interest accrued prior to and during the Suspension Period, but not paid as a result of such Suspension Period, and such interest will be payable (without any interest on such previously accrued interest) on the next succeeding Interest Payment Date on which a Suspension Period is no longer in effect, unless such Interest Payment Date occurs on a date that is less than twelve (12) Business Days after such Suspension Period ends, in which case any and all interest then payable shall be paid on the date that is twelve (12) Business Days after the date on which such Suspension Period ends, except to the extent such interest is cancelled pursuant to one or more Write-Downs. If a Suspension Period is in effect on the Maturity Date or any redemption date or the Maturity Date or such redemption date is on a date that is less than twelve (12) Business Days after a Suspension Period ends, payment of principal will be deferred with interest until the date that is twelve Business Days after the date on which such Suspension Period ends, except to the extent such principal is cancelled pursuant to one or more Write-Downs. When a Suspension Period is no longer in effect, the Issuer will notify the holders of the applicable Series of Subordinated Notes and the Trustee in accordance with the procedures described in the relevant Subordinated Notes Indenture. If a Write-Down occurs, the Written-Down Principal, and any interest accrued with respect thereto during any Suspension Period, will be cancelled. The deferral of interest in accordance with the procedures set forth in this paragraph will not constitute an event of default under the Subordinated Notes Indenture.

Suspension Periods

For purposes hereof, a “**Suspension Period**” will commence and the Issuer will defer, but not cancel (except pursuant to one or more Write-Downs), the payment of interest due on any Subordinated Note and principal due thereon upon the occurrence of one of the following events:

- (a) any of the following Capital Ratios applicable to the Bank declines below the minimum percentage required, from time to time, by the Mexican Capitalization Requirements, which, as of the date of this Offering Memorandum, unless otherwise set forth in any supplement hereto, are: (i) 8% in the case of the Total Net Capital (*capital neto*) or (ii) 6% in the case of Tier 1 Capital (*capital básico*), plus, in each case, any other applicable Capital Supplement (a “**Capital Ratios Event**”); or
- (b) the CNBV institutes any corrective measure against the Bank pursuant to either Article 121 or Article 122 of the Mexican Banking Law or any successor provisions (including the corresponding rules set forth under the General Rules Applicable to Mexican Banks), which requires deferring or canceling payments of interest and principal otherwise due on the notes if the Bank is classified as Class III or IV (or equivalent classification under successor provisions) under the Mexican Capitalization Requirements (a “**Mexican Regulatory Event**”).

“**Capital Conservation Buffer**” means the capital supplement required to be equivalent to 2.5% of a Mexican bank’s total risk-weighted assets, pursuant to Section III(a) of Article 2 Bis 5 of the General Rules Applicable to Mexican Banks.

“**Capital Supplement**” refers to the Countercyclical Capital Supplement and the Systemically Important Bank Capital Supplement, together with any other additional capital supplement that may be required to be maintained and comprised of Fundamental Capital pursuant to the Mexican Capitalization Requirements.

“**Countercyclical Capital Supplement**” means an additional capital supplement that the CNBV has the authority to require from any and all Mexican banks, designated to cover adverse economic cycles, if the aggregate financing received by the Mexican private sector grows at a higher level as compared to the level of growth of the Mexican economy.

“**Systemically Important Bank Capital Supplement**” means an additional capital supplement, as determined from time to time, that the CNBV requires of Mexican banks that are determined by the CNBV to be of systemic importance, in light of the impact that their default may cause to the Mexican financial system, the Mexican payment system or the Mexican economy.

See “Supervision and Regulation—Capitalization” for further information regarding the General Rules Applicable to Mexican Banks and how they apply to us.

Conclusion of a Suspension Period

Subject to the occurrence of one or more Write-Downs, a Suspension Period in respect of a Series of Subordinated Notes shall terminate and the payment of interest or principal due on such Series of Subordinated Notes will resume:

- (a) if such Suspension Period was triggered by a Capital Ratios Event, when the Capital Ratios Event has terminated; or
- (b) if such Suspension Period was triggered by a Mexican Regulatory Event, when the Mexican Regulatory Event has terminated.

Further Provisions for Suspension Periods

Notwithstanding anything in this Offering Memorandum to the contrary, neither the occurrence nor continuation of a Suspension Period shall give rise to any Subordinated Notes Event of Default under the relevant Subordinated Notes Indenture or the Subordinated Notes.

The Issuer must give notice of any Suspension Period affecting a Series of Subordinated Notes to the holders of such Series via the applicable clearing system and to the Trustee in writing at least five (5) Business Days prior to the earlier of (1) the date the interest due on the Subordinated Notes would have been payable except for such Suspension Period and (2) the date the Trustee is required to give notice to any securities exchange or to holders of the Subordinated Notes of the Regular Record Date or the date such interest is payable but in any event not less than five (5) Business Days prior to such Regular Record Date. The Issuer must also give notice of the termination of any Suspension Period to the holders of the Subordinated Notes via the applicable clearing system and to the Trustee in writing not more than three (3) Business Days after the Suspension Period is no longer in effect. In the absence of written notice to the contrary, the Trustee will assume that the Suspension Period in respect of a particular Series of Subordinated Notes is in effect.

Unless all payable accrued interest and any Additional Amounts on the Subordinated Notes have been paid or been cancelled pursuant to one or more Write-Downs, at any time during any Suspension Period, and following termination of such Suspension Period, the Bank shall not:

- (a) declare or pay any dividends or distributions on, or redeem, purchase, acquire, or make a liquidation payment with respect to, any of the Bank's capital stock (which includes common and preferred stock);
- (b) make any payment of premium, if any, or interest on or repay, repurchase or redeem any of the Bank's debt securities that rank *pari passu* with or junior in right of payment and in liquidation to the Subordinated Notes;
- (c) to the extent any such guaranty is permitted under applicable law, make any guaranty payments with respect to any guaranty by the Bank of the debt securities of any of the Bank's subsidiaries if such guaranty ranks *pari passu* with or junior in right of payment and in liquidation to the Subordinated Notes; or
- (d) take any other action in violation of any other order by the CNBV, *Banco de México*, the SHCP or any other relevant Mexican authority;

provided, however, that the foregoing shall not apply to the extent that the Bank obtains prior regulatory approval for any action that would otherwise be prohibited.

Trigger Event and Write-Down

Trigger Event

A "**Trigger Event**," with respect to a Series of Subordinated Notes, will be deemed to have occurred if:

- (a) the CNBV publishes a determination, in its official publication of capitalization levels for Mexican banks, that the Bank's Fundamental Capital ratio, as calculated pursuant to the applicable Mexican Capitalization Requirements, is equal to or below 4.5% (four point five percent);
- (b) (A) both (i) the CNBV has notified the Bank that it has made a determination, pursuant to Articles 28 and 29 Bis of the Mexican Banking Law, that a cause for revocation of its license has occurred

resulting from (x) the Bank's assets being insufficient to satisfy its liabilities, (y) the Bank's non-compliance with corrective measures imposed by the CNBV pursuant to the Mexican Banking Law or (z) the Bank's non-compliance with the capitalization requirements set forth in the Mexican Capitalization Requirements and (ii) the Bank has not cured such cause for revocation by (a) complying with such corrective measures, or (b)(1) submitting a capital restoration plan to, and receiving approval of such plan by, the CNBV, (2) not being classified in Class III, IV or V and (3) transferring at least 75 percent of the Bank's shares to an irrevocable trust or (B) remedying any capital deficiency, in each case on or before the third or seventh business day in Mexico, as applicable, following the date on which the CNBV notifies the Bank of such determination; or

- (c) the BSC (as defined in "Supervision and Regulation—Financial Support—Determination by the Banking Stability Committee") determines pursuant to Article 29 Bis 6 of the Mexican Banking Law that, under Article 148, Section II, paragraphs (a) and (b) of the Mexican Banking Law, financial assistance is required by the Bank to avoid revocation of its license because the Bank's assets are insufficient to satisfy its liabilities, or the Bank's failure to comply with corrective measures, to comply with capitalization requirements, or to satisfy certain liabilities when due, as a means to maintain the solvency of the Mexican financial system or to avoid risks affecting the Mexican payments system and such determination is either made public or notified to the Bank (for the avoidance of doubt, pursuant to Annex 1-S of the General Rules Applicable to Mexican Banks, a Trigger Event shall occur if financial assistance or other loans shall be granted to the Bank pursuant to Article 148, Section II, paragraphs (a) and (b) of the Mexican Banking Law).

Write-Down

If a Trigger Event occurs with respect to any Series of Subordinated Notes, the following write-downs (each, a "**Write-Down**") of such Series of Subordinated Notes shall be deemed to have occurred on the Write-Down Date (as defined below), automatically and without any additional action by the Bank, the Trustee or the holders of such Subordinated Notes:

- (a) the then-outstanding principal amount of such Subordinated Notes will automatically be reduced by one or more Write-Downs by each applicable Write-Down Amount (as defined below) and such Write-Down shall not constitute a Subordinated Notes Event of Default; and
- (b) any holder of Subordinated Notes will automatically be deemed to have irrevocably waived its right to claim or receive, and will not have any rights against the Bank or the Trustee with respect to, repayment of, the Written-Down Principal of the Subordinated Notes or any interest with respect thereto (or Additional Amounts payable in connection therewith), including any and all accrued and unpaid interest with respect to such Written-Down Principal as of the Write-Down Date, irrespective of whether such amounts have become due and payable prior to the date on which the Trigger Event shall have occurred.

The Issuer shall provide notice to holders via the applicable clearing system as well as written notice to the Trustee (a "**Write-Down Notice**") that a Trigger Event has occurred not later than the next Business Day succeeding such Trigger Event. Any Write-Down Notice to the Trustee must be in writing and accompanied by an officer's certificate of the Issuer stating that a Trigger Event has occurred and setting out the method of calculation of the relevant Write-Down Amount.

"**Write-Down Amount**" means an (i) amount of the then-outstanding principal amount of the relevant Series of Subordinated Notes that would be sufficient, together with any concurrent pro rata Write-Down of any other loss-absorbing instruments issued by the Bank and then outstanding, to return its Fundamental Capital ratio to the levels of then-applicable Fundamental Capital ratio required by the CNBV in accordance with Section IX, b) of Annex 1-S of the General Rules Applicable to Mexican Banks or any successor regulation, which as of the date of this Offering Memorandum is, including the Capital Conservation Buffer, 7% plus the amount required to restore any Countercyclical Capital Supplement and any Systemically Important Bank Capital Supplement to the minimum amounts required under the Mexican Capitalization Requirements on such Write-Down Date; or (ii) if any Write-Down of the then-outstanding principal amount, together with any concurrent pro rata write down of any other loss-absorbing instruments issued by the Bank and then outstanding, would be insufficient to return the Bank's Fundamental Capital ratio to the aforementioned amount described in clause (i) above, then the amount necessary to reduce the then-outstanding principal amount of each outstanding note to zero.

“Write-Down Date” means the date on which a Write-Down will be deemed to take effect, which shall be the next Business Day succeeding the date of the Trigger Event.

“Written-Down Principal” means the amount by which the principal of any Subordinated Notes has been written down by any one or more Write-Downs.

As required under the Mexican Capitalization Requirements, a full Write-Down (whereby the principal amount of the Subordinated Notes has been written down to zero) shall be completed before any public funds are contributed or any public assistance is provided to the Bank in the terms of Article 148, Section II, subsections a) and b) of the Mexican Banking Law, including, among others, in the form of (i) subscription of shares, (ii) granting of loans, (iii) payment of the Bank’s liabilities, (iv) granting of guaranties and (v) the transfer of assets and liabilities.

Events of Default, Notice and Waiver

Unless otherwise specified in the applicable Pricing Supplement under “Additional Events of Default,” an event of default with respect to a Series of Subordinated Notes (each, a **“Subordinated Notes Event of Default”** and, together with each Senior Notes Event of Default, an **“Event of Default”**) will be defined in the applicable Subordinated Notes Indenture as:

- (a) the Issuer’s default in the payment of interest or Additional Amounts due and payable in respect of the applicable Series of Subordinated Notes, unless such payment of interest is deferred as a result of a Suspension Period, and such default continues for a period of thirty (30) calendar days;
- (b) the Issuer’s default in the timely payment of the principal of the applicable Series of the Subordinated Notes, unless such payment of principal is deferred as a result of a Suspension Period, as applicable under the relevant Subordinated Notes Indenture, when the same shall become due and payable, other than during a Suspension Period;
- (c) a payment by the Bank, during a Suspension Period, of dividends or other distributions in respect of its capital stock; or
- (d) certain events involving the Bank’s liquidation (including *liquidación* or *resolución*) or dissolution.

For the avoidance of doubt, the occurrence of any the following shall not constitute a Subordinated Notes Event of Default: (i) one or more Write-Downs and (ii) in the case of SDG Notes, the net proceeds of such SDG Notes not being used, any report, assessment, opinion or certification not being obtained or published, or any other step or action not being taken, in each case as set out and described in the “Use of Proceeds” section of this Offering Memorandum, as so supplemented, in connection with the offering of such SDG Notes.

The payment of the principal of the Subordinated Notes or interest accrued and unpaid thereon may be accelerated only upon the occurrence of a Subordinated Notes Event of Default described in the paragraph (d) above, referred to as a **“Liquidation Event of Default.”** There is no right of acceleration of the payment of principal or accrued and unpaid interest of the Subordinated Notes upon the occurrence of any other Subordinated Notes Event of Default noted above, including a default in the payment of principal or interest. If payment of the principal of the Subordinated Notes of any Series or accrued and unpaid interest is accelerated, the Issuer shall promptly notify holders of its Senior Indebtedness of the acceleration. If a Subordinated Notes Event of Default with respect to a Series of Subordinated Notes occurs under the relevant Subordinated Notes Indenture and is continuing, the Trustee may pursue any available remedy (excluding acceleration, except as provided above) under such Subordinated Notes Indenture to collect the payment of due and unpaid principal of and interest on the applicable Subordinated Notes, or to enforce the performance of any provision of the applicable Subordinated Notes and/or Subordinated Notes Indenture.

If and only if a Liquidation Event of Default occurs and is continuing, the Subordinated Notes will become immediately due and payable without any declaration or other act on the part of the Trustee or any holder of the Subordinated Notes. The Subordinated Notes will become immediately due and payable at their then-outstanding principal amount together with accrued and unpaid interest up to (but excluding) the date on which the Liquidation Event of Default occurs, without further action by any person. For the avoidance of doubt, no Capital Ratios Event or Mexican Regulatory Event will constitute a Liquidation Event of Default, nor during a Suspension Period in respect of the Subordinated Notes will a deferral in the payment of interest or principal on the Subordinated Notes, as applicable, entitle the holders of the Subordinated Notes to accelerate the payment of principal or accrued and unpaid interest of the Subordinated Notes. In the event of a Liquidation Event of Default, holders of the Subordinated Notes may not be able to collect the full amount payable under the Subordinated Notes and other bankruptcy rules may affect

the timing or amount paid to holders of the Subordinated Notes. In addition, holders of the Subordinated Notes may have no enforcement remedies for a Subordinated Notes Event of Default upon the occurrence of a Trigger Event and resulting Write-Down. See “Risk Factors—Risks Relating to the Notes—If we do not satisfy our obligations under the Subordinated Notes, whether due to a Write-Down or otherwise, your remedies will be limited.”

Holders of Subordinated Notes may not enforce the relevant Subordinated Notes Indenture or the Subordinated Notes except as provided in the applicable Subordinated Notes Indenture. The holder of any Subordinated Note, however, will have the right to receive payment of the principal of and interest on that Subordinated Note on or after the due dates, redemption dates or Maturity Date expressed in the relevant Subordinated Notes Indenture or such Subordinated Note and, subject to one or more Write-Downs and the deferral provisions set forth in the Subordinated Note and the relevant Subordinated Notes Indenture and certain other limitations and conditions, to institute a lawsuit for the enforcement of any such payment on or after such respective dates. The Trustee may refuse to enforce any of the provisions of a Subordinated Notes Indenture or the Subordinated Notes unless it receives indemnity or security satisfactory to it. Subject to certain limitations, holders of a majority in principal amount of the outstanding Subordinated Notes of a Series may direct the Trustee under the relevant Subordinated Notes Indenture in its exercise of any trust or power in respect thereof.

Under the Subordinated Notes Indentures, the Bank must furnish the Trustee annually with a statement regarding any default in the performance of the Bank’s obligations thereunder.

Modification of a Subordinated Notes Indenture; Waiver of Covenants

Subject to authorization by *Banco de México*, the Bank and the Trustee may, without the consent of any holder of Subordinated Notes of a Series, amend, waive or supplement the relevant Subordinated Notes Indenture or the Subordinated Notes of such Series in certain circumstances, including, among other things, to cure any ambiguity, omission, defect or inconsistency, to conform the text of the relevant Subordinated Notes Indenture or the Subordinated Notes of such Series to any provision in this “Description of the Notes” or the relevant Pricing Supplement distributed to holders of Notes of such Series and to make any change that does not adversely affect the rights of any relevant holder in any material respect. In addition, subject to authorization by *Banco de México* and the approval by 75% of the members of the Bank’s Board of Directors, the Bank and the Trustee may amend, waive or supplement the relevant Subordinated Notes Indenture or the Subordinated Notes of a Series with the written consent of the holders of at least a majority in aggregate principal amount of the outstanding Subordinated Notes of such Series. However, without the consent of the holder of each Subordinated Note of a Series affected thereby, the Bank may not, among other things:

- (a) reduce the percentage in principal amount of outstanding Subordinated Notes of such Series that is required for the consent of the holders in order to modify or amend the relevant Subordinated Notes Indenture;
- (b) reduce the rate of or change or have the effect of changing the time for payment of interest, including amount in arrears, on any Subordinated Notes of the applicable Series or change in any adverse respect the obligation of the Bank to pay Additional Amounts in respect of the Notes of the applicable Series;
- (c) reduce the principal (except in the case of one or more Write-Downs), or change or have the effect of changing the Maturity Date, of any Subordinated Notes of such Series, or change the date on which any Subordinated Notes of the applicable Series may be subject to redemption, or reduce the redemption price therefor;
- (d) change the currency of payment of principal or interest on any Subordinated Note of such Series;
- (e) modify any other payment provision of any Subordinated Note of such Series;
- (f) make any change to the provisions of the relevant Subordinated Notes Indenture entitling each holder to receive payment of principal of and interest on a Subordinated Note of such Series on or after the due date thereof or that impairs the right to sue for the enforcement of any payment on or with respect to any Subordinated Note of such Series; or
- (g) modify the subordination provisions relating to the Subordinated Notes in any manner adverse to the holders of the Subordinated Notes of such Series.

The holders of a majority in aggregate principal amount of the outstanding Subordinated Notes of a Series may waive any past default or Subordinated Notes Event of Default under the relevant Subordinated Notes Indenture, except that a default under a provision that cannot be modified without the consent of each holder of a Subordinated Note of such Series that would be affected.

Notwithstanding the foregoing, a Subordinated Notes Indenture may not be amended, supplemented or modified without the approval of *Banco de México* and the CNBV.

Restrictions Applicable to Mexican Financial Institutions

Unless otherwise permitted by applicable law, each Subordinated Notes Indenture will provide that the Subordinated Notes (i) may not constitute collateral granted in favor of Mexican credit institutions (*instituciones de crédito*), including the Bank, and (ii) may not be directly or indirectly acquired by the Bank for its own account by any person controlled by the Bank, or by any of the following entities:

- (a) Mexican financial entities (*entidades financieras*) of any kind that acquire the Subordinated Notes for their own accounts except for (1) investment funds authorized to invest in subordinated instruments, (2) securities brokers (*casas de bolsa*) that acquire the Subordinated Notes for placement with investors, and (3) insurance companies (*instituciones y sociedades mutualistas de seguros*) and bonding companies (*instituciones de fianzas*) to the extent they acquire the Subordinated Notes to invest their technical reserves and for securities fluctuation, (4) the holding company of the financial group to which the Bank belongs, in terms of the Mexican Financial Groups Law, and (5) the Bank, in the event set forth in Section II of the first paragraph of Article 28 of the Bulletin 3/2012; *provided, however*, that the exceptions referred to in (1), (2) and (3) of this paragraph shall not apply to (x) investment companies in which the Bank or any other entity that forms part of its financial group (*grupo financiero*) holds, directly or indirectly, the majority of its fixed capital and (y) financial entities that form part of the Bank's financial group (*grupo financiero*);
- (b) Mexican or non-Mexican entities with respect to which the Bank (1) owns voting stock representing at least 51% of their outstanding paid-in capital, (2) has control of the shareholders' meetings of such entity, as such term is defined in the Mexican Securities Market Law or (3) is in a position to appoint the majority of the members of such entity's board of directors;
- (c) Mexican pension or retirement funds managed by the Bank or another entity that forms part of the Bank's financial group (*grupo financiero*);
- (d) the Bank or another entity that forms part of its financial group (*grupo financiero*) acting in its capacity as trustee, representative, agent or attorney-in-fact if, by acting in such capacity, it has discretionary investment authority; *provided, however*, that any Mexican financial entity or Mexican pension or retirement fund that is not otherwise prevented from investing in the Subordinated Notes may acquire, together with any other such entity that is an affiliate or that forms part of the same financial group on a collective basis, up to 10% of the aggregate principal amount of the outstanding Notes; or
- (e) related parties to the Bank, as defined in Article 73 of the Mexican Banking Law, except in the case that the respective notes are placed through:
 - (i) public offering; or
 - (ii) any other mechanism, different to a public offering, subject to the previous authorization of *Banco de México*, at the request of the Bank in which it states the convenience to carry out the aforementioned mechanism instead of the public offering, pursuant to the provisions of Article 27 of the Bulletin 3/2012.

Other Terms and Conditions Applicable to the Senior and Subordinated Notes

Redemption; Repurchases at the Bank's Option; Repurchases at the Holder's Option

The applicable Pricing Supplement will indicate either that:

- (a) the Notes of any Series will not be subject to redemption at our option, prior to the Maturity Date of such Series of Notes; or

- (b) the Notes of such Series will be redeemable prior to the Maturity Date at our option on a date(s) specified prior to the Maturity Date and at a price(s) and on other terms as are specified in the applicable Pricing Supplement.

Unless otherwise specified in the applicable Pricing Supplement, the redemption date for any Floating Rate Note will be an Interest Payment Date, and the Bank shall calculate the redemption price of any Notes.

Optional Redemption with a Make-Whole Premium

In addition to specifying whether the applicable Series of Notes may be redeemed as set forth under “—Redemption of Notes Prior to Maturity Solely for Taxation Reasons” below and, in the case of Subordinated Notes, “—Subordinated Notes Optional Redemption and Special Event Redemption of Subordinated Notes” below, each applicable Pricing Supplement will indicate either that the relevant Tranche of Notes of a Series cannot be redeemed prior to maturity or the terms on which such Notes will be redeemable at the option of the Issuer, including, without limitation, the price at which such Notes are to be redeemed (the “**Make-Whole Redemption Price**”) and the relevant date upon which such Notes will be so redeemed (each such date, an “**Make-Whole Redemption Date**”); *provided, however*, that Notes denominated in currencies other than U.S. dollars may be subject to different restrictions on redemption as set forth in the applicable Pricing Supplement relating to any such Notes.

If the applicable Pricing Supplement provides that “Make-Whole Redemption” is applicable, the Issuer may, at any time at its option, redeem the relevant Series of Notes, in whole but not in part, at a Make-Whole Redemption Price that includes a Make-Whole Premium (as defined below), which will be calculated by the person specified in the Pricing Supplement, and the following shall apply to such Series of Notes:

The relevant Series of Notes will be redeemable by the Issuer prior to maturity in whole, but not in part, on the Make-Whole Redemption Date at a Make-Whole Redemption Price equal to the greater of (i) 100% of the principal amount thereof and (ii) the sum of the present values of the Remaining Scheduled Payments of principal and interest on the Notes to be redeemed (exclusive of interest accrued to (but excluding) the applicable Make-Whole Redemption Date) discounted to that Make-Whole Redemption Date on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months) at the Make-Whole Treasury Rate plus a spread to be indicated in the applicable Pricing Supplement (the “**Make-Whole Premium**”); *plus*, in the case of both clause (i) and clause (ii) above, accrued and unpaid interest, and Additional Amounts, if any, to (but excluding) the Make-Whole Redemption Date.

Notice of redemption to holders of Notes in respect of optional redemption with a Make-Whole Premium shall be provided as described under “Notices” below at least 30 and not more than 60 calendar days prior to the Make-Whole Redemption Date.

Notwithstanding the foregoing, installments of interest on the Notes to be redeemed that are due and payable on or prior to a Make-Whole Redemption Date will be payable to the holders of those Notes registered as such at the close of business on the relevant Regular Record Dates according to the terms and provisions of the applicable Indenture.

In connection with such optional redemption with a Make-Whole Premium, the following defined terms apply:

“**Comparable Treasury Issue**” means the United States Treasury security or securities selected by the Independent Investment Banker as having an actual or interpolated maturity comparable to the remaining term of the Notes to be redeemed that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate Notes of comparable maturity to the remaining term of the Notes.

“**Comparable Treasury Price**” means, with respect to any Make-Whole Redemption Date, (A) the average of the Reference Treasury Dealer Quotations for that Make-Whole Redemption Date, after excluding the highest and lowest of such Reference Treasury Dealer Quotations, or (B) if the Independent Investment Banker for the Notes obtains fewer than four such Reference Treasury Dealer Quotations, the average of all such quotations.

“**Independent Investment Banker**” means one of the Reference Treasury Dealers appointed by the Bank to act as the “Independent Investment Banker.”

“**Make-Whole Treasury Rate**” means, with respect to any Make-Whole Redemption Date, the rate per annum equal to the semi-annual equivalent yield to maturity (computed as of the third Business Day immediately

preceding the Make-Whole Redemption Date) of the Comparable Treasury Issue, assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for that Make-Whole Redemption Date.

“**Reference Treasury Dealer**” means each of four nationally recognized investment banking firms that are Primary Treasury Dealers specified from time to time by the Bank; *provided*, that if any of the foregoing shall cease to be a primary U.S. Government securities dealer in the United States of America (a “**Primary Treasury Dealer**”), the Bank shall substitute therefor another nationally recognized investment banking firm that is a Primary Treasury Dealer.

“**Reference Treasury Dealer Quotation**” means, with respect to each Reference Treasury Dealer and any Make-Whole Redemption Date, the average, as determined by the Independent Investment Banker, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Independent Investment Banker by such Reference Treasury Dealer at 3:30 p.m. (New York City time) on the third Business Day preceding that Make-Whole Redemption Date.

“**Remaining Scheduled Payments**” means, with respect to each Note to be redeemed, the remaining scheduled payments of the principal thereof and interest thereon that would be due after the related Make-Whole Redemption Date but for such redemption; *provided*, that, if that Make-Whole Redemption Date is not an Interest Payment Date with respect to such Notes, the amount of the next succeeding scheduled interest payment thereon will be reduced by the amount of interest accrued thereon to that Make-Whole Redemption Date.

On and after any Make-Whole Redemption Date, interest will cease to accrue on the Notes called for redemption unless the Issuer defaults in the payment of the Make-Whole Redemption Price.

Redemption of Notes Prior to Maturity Solely for Taxation Reasons

If the applicable Pricing Supplement provides that “Tax Redemption” is applicable, the Issuer may, at its election, subject to applicable law, redeem a Series of Notes, in whole (up to the then-outstanding principal amount) but not in part, at any time prior to the Maturity Date (the “**Tax Redemption Date**”), upon giving not less than 30 nor more than 60 days’ notice to the holders of the Notes of such Series, at 100% of their par value, plus Additional Amounts, if any, together with all accrued to and unpaid interest due on (but excluding) the Tax Redemption Date, upon the occurrence of a Withholding Tax Event (as defined below) affecting the Notes of such Series (a “**Withholding Tax Redemption**”).

For the purposes of the foregoing, the term “**Withholding Tax Event**” is defined in the Senior Notes Indenture and will be defined in the relevant Subordinated Notes Indenture to mean (i) the receipt by the Bank and the delivery to the applicable Trustee of an opinion of a nationally recognized law firm experienced in such matters to the effect that, as a result of (a) any amendment to, or change in (including any announced prospective change), the laws or treaties (or any rules or regulations thereunder) of any Relevant Jurisdiction affecting taxation, (b) any judicial decision, official administrative pronouncement or regulatory procedure, of any Relevant Jurisdiction (each an “**Administrative Action**”) or (c) any amendment to or change in the official position or the official interpretation of such Administrative Action that provides for a position with respect to such Administrative Action that differs from the theretofore generally accepted position, in each case, by any legislative body, court, governmental authority or regulatory body having appropriate jurisdiction, irrespective of the manner in which such amendment or change is made known, which amendment or change is effective or such pronouncement or decision is announced on or after the date of issuance of such Notes or with respect to any jurisdiction other than Mexico, after such jurisdiction has become a Relevant Jurisdiction (collectively, a “**Change in Tax Law**”), there is more than an insubstantial risk that the Bank is or will be liable for more than a *de minimis* payment of Additional Amounts in respect of such Notes in excess of the gross amount of Additional Amounts payable in respect of such Notes prior to such Change in Tax Law and (ii) the delivery to the applicable Trustee of an officer’s certificate stating that the requirement to make such withholding or deduction cannot be avoided by taking reasonable measures available to the Bank (such measures not involving any material cost to the Bank or the incurring by the Bank of any other tax or penalty).

Prior to giving any notice of a “Tax Redemption” pursuant to this provision, we will deliver to the Trustee the opinion required pursuant to clause (i) and the officer’s certificate required pursuant to clause (ii) of the definition of “Withholding Tax Event.”

Notice of redemption pursuant to this provision, after it is delivered by us to the holders, will be irrevocable.

If the Issuer elects to effect a Withholding Tax Redemption with respect to the Subordinated Notes of any Series, (i) the Bank shall be in compliance with applicable Mexican Capitalization Requirements in effect on the applicable Tax Redemption Date; (ii) after giving effect to the redemption, the Bank maintains each of its Capital Ratios equal to, or exceeding, the then-applicable capital ratios required by the CNBV in accordance with Section IV, c), 1 of Annex 1-S of the General Rules Applicable to Mexican Banks or any successor regulation, which, as of the date of this Offering Memorandum, unless otherwise set forth in any supplement hereto, are (x) 10.5% in the case of the Total Net Capital (*capital neto*), which includes the Capital Conservation Buffer, (y) 8.5% in the case of Tier 1 Capital (*capital básico*), which includes the Capital Conservation Buffer, and (z) 7% in the case of Fundamental Capital (*capital básico fundamental*), which includes the Capital Conservation Buffer, *plus*, in each case, any other applicable Capital Supplement, or the Bank issues securities that replace the Subordinated Notes such that the Bank remains in compliance with the Mexican Capitalization Requirements; and (iii) the Bank has obtained the authorization from *Banco de México* to redeem the Subordinated Notes prior to the applicable Tax Redemption Date, as evidenced by an officer's certificate delivered to the Trustee prior to delivery of the redemption notice to the holders; *provided, however*, that if at any time a Trigger Event shall have occurred, or a Suspension Period shall have commenced and not terminated, then the Issuer shall have no obligation to redeem any Subordinated Notes called for Withholding Tax Redemption.

In the event of such a Withholding Tax Redemption for Subordinated Notes, the Bank is required to obtain the authorization of *Banco de México* to redeem the Subordinated Notes prior to the applicable Tax Redemption Date. The Bank's obligation to obtain *Banco de México's* authorization to redeem the Subordinated Notes shall not grant any rights to the Trustee or the holders of the Subordinated Notes to have the Subordinated Notes redeemed, even if such authorization is obtained.

Subordinated Notes Optional Redemption and Special Event Redemption of Subordinated Notes

If, and to the extent, specified in the applicable Pricing Supplement, Subordinated Notes Optional Redemption and Special Event Redemption (each, defined below) apply to each Series of Subordinated Notes. Neither redemption feature applies to any Series of Senior Notes.

Subordinated Notes Optional Redemption

If the applicable Pricing Supplement provides that "Subordinated Notes Optional Redemption" is applicable, the Issuer will have the option, but no obligation, under the relevant Subordinated Notes Indenture to redeem the applicable Series of Subordinated Notes on the applicable optional call date only, in whole (up to the then-outstanding principal amount) or in part, at par plus accrued and unpaid interest due on, or with respect to, such Series of Subordinated Notes, plus Additional Amounts, if any, up to, but excluding, the date of redemption (a "**Subordinated Notes Optional Redemption**") (subject to the right of holders on the relevant Regular Record Date to receive interest due on the related Interest Payment Date occurring on or prior to the applicable redemption date).

The Issuer may redeem the Subordinated Notes pursuant to a Subordinated Notes Optional Redemption only if (i) the Bank is then in compliance with the applicable Mexican Capitalization Requirements in effect on the applicable redemption date; (ii) after giving effect to the Subordinated Notes Optional Redemption, the Bank maintains each of its Capital Ratios equal to, or exceeding, the then-applicable capital ratios required by the CNBV in accordance with Section IV, c), 1 of Annex 1-S of the General Rules Applicable to Mexican Banks or any successor regulation, which, as of the date of this Offering Memorandum, unless otherwise set forth in any supplement hereto, are (x) 10.5% in the case of the Total Net Capital (*capital neto*), which includes the Capital Conservation Buffer, (y) 8.5% in the case of Tier 1 Capital (*capital básico*), which includes the Capital Conservation Buffer, and (z) 7% in the case of Fundamental Capital (*capital básico fundamental*), which includes the Capital Conservation Buffer, *plus*, in each case, any other applicable Capital Supplement, or the Bank issues securities that replace the Subordinated Notes such that the Bank remains in compliance with the Mexican Capitalization Requirements; and (iii) the Bank has obtained the authorization from *Banco de México* to redeem the Subordinated Notes prior to the applicable redemption date, as evidenced by an officer's certificate delivered to the Trustee prior to delivery of the redemption notice to the holders; *provided, however*, that if at any time a Trigger Event shall have occurred, or a Suspension Period shall have commenced and not terminated, then the Issuer shall have no obligation to redeem any Subordinated Notes called for Subordinated Notes Optional Redemption.

In the event of such a Subordinated Notes Optional Redemption, the Bank is required to obtain the authorization of *Banco de México* to redeem the applicable Series of Subordinated Notes prior to the applicable redemption date. The Bank's obligation to obtain *Banco de México's* authorization to redeem the applicable Series of

Subordinated Notes shall not grant any rights to the Trustee or the holders of such Series of Subordinated Notes to have the Subordinated Notes redeemed, even if such authorization is obtained.

Special Event Redemption

If the applicable Pricing Supplement provides that “Special Event Redemption” is applicable, the Issuer has the option, but no obligation, to redeem the applicable Series of Subordinated Notes at any time prior to the Maturity Date, subject to any applicable regulatory requirements, in whole (up to the then-outstanding principal amount) but not in part, at par plus accrued and unpaid interest due on, or with respect to, the applicable Series of Subordinated Notes, plus Additional Amounts, if any, up to, but excluding, the date of redemption, upon the occurrence of a Special Event (as defined below) affecting the Subordinated Notes (a “**Special Event Redemption**”) (subject to the right of holders on the relevant Regular Record Date to receive interest due on the related Interest Payment Date occurring on or prior to the applicable redemption date); *provided, however*, in the event of such a Special Event Redemption with respect to such Series of Subordinated Notes, (i) the Bank shall be in compliance with applicable Mexican Capitalization Requirements in effect on the applicable redemption date; (ii) after giving effect to the redemption, the Bank maintains each of its Capital Ratios equal to, or exceeding, the then-applicable capital ratios required by the CNBV in accordance with Section IV, c), 1 of Annex 1-S of the General Rules Applicable to Mexican Banks or any successor regulation, which, as of the date of this Offering Memorandum, unless otherwise set forth in any supplement hereto, are (x) 10.5% in the case of the Total Net Capital (*capital neto*), which includes the Capital Conservation Buffer, (y) 8.5% in the case of Tier 1 Capital (*capital básico*), which includes the Capital Conservation Buffer, and (z) 7% in the case of Fundamental Capital (*capital básico fundamental*), which includes the Capital Conservation Buffer, *plus*, in each case, any other applicable Capital Supplement, or the Bank issues securities that replace the Subordinated Notes such that the Bank remains in compliance with the Mexican Capitalization Requirements; and (iii) the Bank has obtained the authorization from *Banco de México* to redeem the Subordinated Notes prior to the applicable redemption date; *provided, however*, that if at any time a Trigger Event shall have occurred, or a Suspension Period shall have commenced and not terminated, then the Issuer shall have no obligation to redeem any Subordinated Notes called for Special Event Redemption.

In the event of such a Special Event Redemption, the Bank is required to obtain the authorization of *Banco de México* to redeem the applicable Series of Subordinated Notes prior to the applicable redemption date. The Bank’s obligation to obtain *Banco de México*’s authorization to redeem such Series of Subordinated Notes shall not grant any rights to the Trustee or the holders of the applicable Series of Subordinated Notes to have such Series of Subordinated Notes redeemed, even if such authorization is obtained.

Unless otherwise stated in the applicable Pricing Supplement, each Subordinated Notes Indenture will provide that:

- (a) the term “**Special Event**” in respect of the Subordinated Notes will mean a Capital Event or a Tax Event (both as defined below);
- (b) the term “**Capital Event**” in respect of the Subordinated Notes will mean the reasonable determination by the Bank that, as a result of (a) the occurrence of any amendment to or change in the laws or any regulations thereunder of Mexico or (b) any official administrative pronouncement or judicial decision interpreting or applying these laws or regulations, which amendment or change is effective or which pronouncement or decision is announced on or after the Original Issue Date of such Subordinated Notes, there is more than an insubstantial risk that the Bank will not be entitled to treat the Subordinated Notes as Tier 2 Capital, or the then equivalent of Tier 2 Capital for purposes of the Rules for Capitalization and Mexican Capitalization Requirements, as then in effect and applicable to the Bank; and
- (c) the term “**Tax Event**” in respect of the Subordinated Notes will mean the receipt by the Bank of an opinion of a nationally recognized law firm experienced in such matters to the effect that, as a result of a Change in Tax Law, there is more than an insubstantial risk that interest payable by the Bank on the Subordinated Notes is not or will not be deductible by the Bank in whole or in part for Mexican income tax purposes.

Repurchases at the Bank’s Option

Except as specified in the applicable Pricing Supplement, the Bank and its affiliates may purchase Senior Notes at any price in the open market or otherwise, subject to obtaining any prior approval as may be required pursuant

to applicable law or regulation. Any Senior Notes so purchased by the Bank and its affiliates may, at their discretion, be held or resold or surrendered to the Trustee for cancellation; *provided* that the Bank or its affiliates will only be permitted to resell the Senior Notes if the Senior Notes will be fungible with all of the outstanding Senior Notes of such Series for U.S. federal income tax purposes or if the sold Senior Notes have a separate CUSIP number.

Repayments at the Option of the Holders

If the applicable Pricing Supplement provides that “Investor Put” is applicable, the Notes of such Series will be subject to repayment at the option of the holders of such Notes under the terms of the Notes on their respective optional repayment dates, if any, as agreed upon by us and the relevant Dealer(s) at the time of sale and specified in the applicable Pricing Supplement. We will refer to these repayment dates as the “**holder’s optional repayment date**.” If no holder’s optional repayment date is specified in the applicable Pricing Supplement, the Note will not be repayable at the option of the holder prior to maturity. On any holder’s optional repayment date for a Note, the Note will be repayable in whole or in part at the option of the holder of the Note at a repayment price equal to 100% of the principal amount to be repaid, together with accrued and unpaid interest on the Note payable to but excluding the date of repayment. For any Note to be repaid, the Note must be received, together with the form located on the Note entitled “Option to Elect Repayment” duly completed, by the Trustee at the address specified in the form (or at the place(s) of which we will from time to time notify the holders of the Notes) not more than 30 nor less than 15 days prior to the holder’s optional repayment date, unless otherwise specified in the applicable Pricing Supplement.

Payment of Additional Amounts

All payments made by or on behalf of the Issuer in respect of the Notes will be made free and clear of, and without withholding or deduction for or on account of, any present or future taxes, duties, levies, imposts, assessments or governmental charges of whatever nature, imposed or levied by or on behalf of the government of Mexico, the United States, or any other jurisdiction through which payments are made (each, a “**Relevant Jurisdiction**”) or any authority or agency therein or thereof having power to tax (collectively, “**Relevant Tax**”) unless the withholding or deduction of such Relevant Tax is required by law or by the interpretation or administration thereof. If the Issuer is so required by law or by the interpretation or administration thereof to withhold or deduct any amount for or on account of Relevant Taxes imposed by a Relevant Jurisdiction from any payment made under or with respect to the Notes, the Issuer will pay such additional amounts (“**Additional Amounts**”) as may be necessary so that the net amounts received by the holders or beneficial owners of the Notes or their nominees after such withholding or deduction will equal the amount which would have been received in respect of the Notes in the absence of such withholding or deduction; *provided, however*, that no Additional Amounts will be payable to a holder (or beneficial owner or nominee) to the extent that such Relevant Tax:

- (a) is imposed only by virtue of such holder (or beneficial owner) having some connection with the Relevant Jurisdiction, other than being a holder (or beneficial owner) of the Notes or, receiving payments, of any nature, on the Notes or enforcing rights under the Notes, including such holder or beneficial owner being or having been a citizen, national, domiciliary or resident of such Relevant Jurisdiction or treated as a resident thereof or being or having been physically present or engaged in a trade or business therein or having or having had a permanent establishment therein; or
- (b) is imposed only by virtue of such holder (or beneficial owner) or any other person having failed to timely comply with any certification, identification, information or other reporting requirement that is required or imposed by a statute, treaty, regulation, general rule or generalized administrative practice that is publicly available as a precondition to exemption from, or reduction in the rate of, any Relevant Tax imposed by a jurisdiction other than the United States; *provided* that at least 30 days prior to (i) the first payment date with respect to which the Issuer applies this clause (b) and (ii) in the event of a change in such certification, identification, information, documentation or other reporting requirement, the first payment date subsequent to such change, the Issuer has or its agent has notified the holders in writing that the holders or beneficial owners of Notes will be required to provide such certification, identification, information or documentation; or
- (c) is imposed only by virtue of such holder (or beneficial owner) not having presented the Notes (where presentation is required) for payment within 30 days after the date on which such payment becomes due and payable or the date on which such payment thereof is duly provided for, whichever occurs earlier, except to the extent such holder would be entitled to Additional Amounts had the Notes been surrendered during such 30-day period; or

- (d) is imposed only by virtue of such holder or beneficial owner (or any financial institution through which the holder or beneficial owner holds any Notes through which payment on such Notes are made) having failed to comply with any certification, information, identification, documentation or other reporting requirement (including entering into and complying with an agreement with the Internal Revenue Service) imposed pursuant to Sections 1471 through 1474 of the Internal Revenue Code as in effect on the Original Issue Date or any successor or amended version of these provisions that is substantially comparable and not materially more onerous to comply with; or
- (e) in the event that the holder is a fiduciary, a partnership or any person other than the sole beneficial owner of such payment, would not have been imposed had the beneficiary or settlor with respect to such fiduciary, member of such partnership or beneficial owner of such payment been the actual holder of the Note; or
- (f) is an estate, inheritance, gift, sale, transfer, excise, personal property or similar tax or assessment; or
- (g) is imposed only by virtue of the presentation of the Note for payment in the Relevant Jurisdiction, unless such Note could not have been presented to a paying agent for payment elsewhere; or
- (h) any tax, duty, assessment or other governmental charge payable otherwise than by deduction or withholding from payments on the Notes; or
- (i) is imposed as a result of any combination of (a) through (h) above.

In the event that the Issuer is so required by law or by regulation or governmental policy having the force of law or by the interpretation or administration thereof to withhold or deduct any amount for or on account of Relevant Taxes imposed by a Relevant Jurisdiction from any payment made under or with respect to the Notes, the Issuer will also (1) make such withholding or deduction and (2) remit the full amount withheld or deducted to the relevant taxing authority in the Relevant Jurisdiction in accordance with applicable law.

The Issuer will furnish to the Trustee, within thirty Business Days after the date of payment of any such taxes or the receipt of any credit or refund in respect to such taxes, an officer's certificate and other documentation acceptable to the Trustee, including certified copies of returns, evidencing such payment (or credit or refund received) by the Issuer. Upon written request made by the holders to the Trustee, the Trustee will provide copies of such officer's certificate or other documentation, as the case may be, to the holders.

To give effect to the foregoing, the Issuer will, upon the written request of any holder or beneficial owner, indemnify and hold harmless and reimburse the holder or beneficial owner for the amount of any Relevant Taxes (other than any Relevant Taxes for which the holder or beneficial owner would not have been entitled to receive Additional Amounts pursuant to any of the conditions described in this section "Payment of Additional Amounts") so imposed on, and paid by, such holder or beneficial owner as a result of any payment of principal or interest on the Notes, so that the net amount received by such holder or beneficial owner after such reimbursement will not be less than the net amount the holder or beneficial owner would have received if such Relevant Tax had not been imposed or levied and so paid. Holders and beneficial owners will be obligated to provide reasonable documentation in connection with the foregoing.

The Issuer will also pay any stamp, administrative, court, documentary, excise or similar taxes arising in a Relevant Jurisdiction in connection with the Notes and will indemnify the holders and beneficial owners for any such taxes paid by holders or beneficial owners.

Unless the context requires otherwise, all references to principal or interest payable on the Notes shall be deemed to include any Additional Amounts payable by the Issuer under the Notes or the relevant Indenture and as set forth in the first paragraph of this section and in paragraphs (a) through (h) above. The foregoing obligations shall survive any termination, defeasance or discharge of the Notes and the relevant Indenture.

If the Issuer shall at any time be required to pay Additional Amounts to holders or beneficial owners pursuant to the terms of the Notes and the relevant Indenture, the Issuer will use its reasonable efforts to obtain an exemption from the payment of the Relevant Tax that has resulted in the requirement that the Issuer pay such Additional Amounts.

In the event that Additional Amounts actually paid with respect to the Notes pursuant to the preceding paragraphs are based on rates of deduction or withholding of withholding taxes in excess of the appropriate rate applicable to the holder or beneficial owner of the Notes, and as a result thereof such holder or beneficial owner is

entitled to make a claim for a refund or credit of such excess from the authority imposing such withholding tax, such holder or beneficial owner shall, by accepting the Notes, be deemed to have assigned and transferred all right, title and interest to any such claim for a refund or credit of such excess to the Issuer. However, by making such assignment, the holder or beneficial owner makes no representation or warranty that the Issuer will be entitled to receive such claim for a refund or credit and incurs no other obligation with respect thereto. The Issuer will inform such holder or beneficial owner of the refund or credit within thirty Business Days of the Bank's determination that it is entitled to receive such refund or credit.

Covenants

We have agreed to restrictions on our activities for the benefit of holders of each Series of Notes. The following restrictions will apply separately to each Series of Senior Notes and Subordinated Notes:

Consolidation, Merger, Sale or Transfer of Assets

We may not, without the consent of holders of at least 66 $\frac{2}{3}$ % in aggregate principal amount of the outstanding Notes of each Series, consolidate with or merge into, or convey or transfer, in one transaction or a series of transactions, all or substantially all of its properties, deposits, assets and liabilities to any person, unless:

- (a) the resulting entity, if other than us, is a bank organized and existing under the law of Mexico and, by execution of a supplemental indenture delivered to the Trustee, assumes all of our obligations to:
 - (i) pay the principal of, and interest on, such Notes; and
 - (ii) perform and observe all of its other obligations under the relevant Indenture; and
- (b) we are, or any successor entity is, as the case may be, not, immediately after any such transaction, in default under the relevant Indenture, and no event which, after notice or lapse of time or both would become an event of default under the relevant Indenture, has happened and is continuing; and
- (c) we shall have delivered to the Trustee an officer's certificate and an opinion of counsel, each stating that such consolidation, merger, conveyance or transfer and, if required, such supplemental indenture comply with the foregoing provisions relating to such transaction and all conditions precedent in the relevant Indenture and the execution of such supplemental indenture, if required, relating to such a transaction have been complied with.

In case of any such consolidation, merger, conveyance or transfer, such successor corporation will succeed to and be substituted for the Issuer as obligations by any such successor corporation in such circumstances subject to certain exceptions, the Issuer will be discharged from all obligations under the Notes and the relevant Indenture.

Rule 144A Information

For so long as any of the Notes of a Series remain outstanding and are "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act, the Bank shall furnish, upon the request of any holder, such information as is specified in Rule 144A(d)(4) under the Securities Act: (i) to such holder or (ii) to a prospective purchaser of such Note (or beneficial interests therein) who is reasonably believed to be a qualified institutional buyer designated by such holder, in each case in order to permit compliance by such holder with Rule 144A in connection with the resale of such Notes (or beneficial interest therein) in reliance upon Rule 144A. All such information shall be in the English language.

Periodic Reports

So long as the Notes of a Series are outstanding, the Bank will furnish to the Trustee, who will in turn furnish to the holders of such Notes of such Series upon written request:

- (a) Within 120 days following the end of each of its fiscal years, (i) its consolidated audited income statements, balance sheets and cash flow statements and the related notes thereto for the two most recent fiscal years in accordance with Mexican Banking GAAP, which need not, however, contain any reconciliation to U.S. GAAP or otherwise comply with Regulation S-X as promulgated by the U.S. Securities and Exchange Commission, together with an audit report thereon by the Bank's independent auditors, (ii) the English version of the Bank's annual financial statements and (iii) the Bank's annual financial information included in the English version of its annual report as provided to its shareholders, and

- (b) Within 60 days following the end of the first three fiscal quarters in each of the Bank’s fiscal years, (i) quarterly reports containing unaudited balance sheets, statements of income, statements of shareholders equity and statements of cash flows and the related Notes thereto for the Bank and its consolidated subsidiaries on a consolidated basis, in each case for the quarterly period then ended and the corresponding quarterly period in the prior fiscal year and prepared in accordance with Mexican Banking GAAP, which need not, however, contain any reconciliation to U.S. GAAP or otherwise comply with Regulation S-X as promulgated by the U.S. Securities and Exchange Commission and (ii) the Bank’s quarterly financial information included in the English version of its quarterly report as provided to its shareholders;

provided that any such information or reports will be deemed to have been delivered to the holders of such Notes and the Trustee on the date any such information or reports is posted by us on our website as long as the Trustee has been notified in writing, who in turn will notify the holders of the Notes, that such information has been posted on our website. None of the information provided pursuant to the preceding paragraph shall be required to comply with Regulation S-K as promulgated by the U.S. Securities and Exchange Commission. In addition, the Bank shall furnish to the holders of the Notes, upon the requests of such holders, any information required to be delivered pursuant to Rule 144A(d)(4) under the Securities Act so long as such Notes are not freely transferable under the Securities Act by persons who are not “affiliates” under the Securities Act.

In addition, if and so long as the Notes are admitted to listing on an exchange and the rules of such exchange so require, copies of such reports and information furnished to a Trustee will also be made available by the Bank as required by the rules of such exchange.

Assignment of Indentures

Unless otherwise specified in the applicable Pricing Supplement, under each Indenture, the Bank will have the right to assign any of its rights under such Indenture to a direct or indirect wholly-owned subsidiary of the Bank; *provided* that, in the event of any such assignment, the Bank will remain jointly and severally liable for all such obligations.

Form of Notes and Registration

General

We and the relevant Dealer(s) will agree on the form of Notes to be issued in respect of any Series of Notes. Unless otherwise specified in the applicable Pricing Supplement, all Fixed Rate Notes having the same Original Issue Date, redemption date (if any), redemption terms (if any), Interest Payment Dates, interest rate, and stated maturity will be represented by a fully registered individual global note, and all Floating Rate Notes having the same Original Issue Date, Initial Interest Rate, interest rate basis, Index Maturity, Spread (if any), Spread Multiplier (if any), Minimum Interest Rate (if any), Maximum Interest Rate (if any), Interest Reset Period, Interest Reset Dates, redemption date (if any), redemption terms (if any), Interest Payment Dates and Stated Maturity will be represented by a fully registered individual global note or notes, in the case of the Notes sold to or through one or more Dealers. If the aggregate principal amount of any single Note exceeds U.S.\$500,000,000, one certificate will be issued with respect to each U.S.\$500,000,000 of principal amount and an additional certificate will be issued with respect to any remaining principal amount of such Note. Notes will be issued in the form of a one or more master global notes, at our election, in the case of Notes sold directly to customers by us.

We may issue Notes sold outside of the United States, its territories and possessions to non-United States persons solely in registered form. Additional restrictions applicable to the Dealers are discussed in the sections entitled “Transfer Restrictions” and “Plan of Distribution—Sales Restrictions.”

Registered Notes

We may offer and sell the Notes in the United States only, outside the United States only, or in and outside the United States simultaneously as part of a global offering. The Notes will be initially represented by one or more master global notes or global notes in fully registered form without receipts, interest coupons or talons. We refer to each of these Notes as a “**Global Note**.” Depending on where the Notes are offered, the Notes will clear through one or more of DTC, Euroclear and Clearstream, or any other clearance system specified in the applicable Pricing Supplement.

Notes offered and sold to persons reasonably believed to be a qualified institutional buyers under Rule 144A under the Securities Act are referred to collectively as the “**Rule 144A Global Notes.**” Interests in the Rule 144A Global Notes will be available for purchase only by persons reasonably believed to be a qualified institutional buyers.

Notes offered and sold in offshore transactions in reliance on Regulation S under the Securities Act to persons which are non-U.S. persons are referred to collectively as the “**Regulation S Global Notes**” and Regulation S Global Notes and Rule 144A Global Notes collectively comprise “Global Notes.” Regulation S Global Notes will initially be issued in the form of registered Regulation S Global Notes. On or prior to the 40th day after the completion of the distribution of the Notes of such Series, any resale or transfer of beneficial interests in such Regulation S Global Note shall not be permitted unless such resale or transfer is made pursuant to Rule 144A or Regulation S.

Notes sold in an offering made in and outside the United States simultaneously as part of a global offering may be represented:

- solely by one or more registered Global Notes deposited with DTC (each, a “**DTC Global Note**”), which we will refer to as a single global note issue; or
- by one or more DTC Global Notes for the Notes sold in the United States and by a separate registered global note deposited with the common depository for, and registered in the name of a nominee of such common depository, for Euroclear, Clearstream or any other clearance system as specified in the applicable Pricing Supplement, for the Notes sold outside of the United States. We refer to each of these Notes as a dual global note issue.

Except as described below, owners of beneficial interests in a registered Global Note will not be entitled to have Notes registered in their names, will not receive or be entitled to receive physical delivery of Notes in definitive form and will not be considered the owners or holders of the Notes under the applicable Indenture. Beneficial interests in a registered Global Note will be represented by, and transfers in a registered Global Note will be effected only through, book-entry accounts of financial institutions acting on behalf of the beneficial owners, as, direct or indirect participants in the relevant clearing system.

Investors in a global offering may elect to hold interests in a registered Global Note through DTC, Euroclear, Clearstream or any other clearance systems as specified in the applicable Pricing Supplement, if they are participants in those systems, or indirectly through organizations that are participants in those systems. If the Notes sold in a global offering are part of a single global note issue, Clearstream, Euroclear, or any other clearance systems specified in the applicable Pricing Supplement, will hold interests on behalf of their participants through customers’ securities accounts in Clearstream’s and Euroclear’s names, or in the names of any other clearance systems specified in the applicable Pricing Supplement, on the books of the common depository, which in turn will hold those interests in customers’ securities accounts in the common depository’s name on the books of DTC.

Ownership positions within each clearing system will be determined in accordance with the normal conventions observed by that system. According to the applicable Indenture, the Trustee will act as our paying agent for the Notes. We will make payments of principal, premium, if any, and interest on a registered Global Note to DTC, its nominee or a nominee of such common depository, for Euroclear, Clearstream or any other clearance system specified in the applicable Pricing Supplement, or to any of their successors or nominees, as the registered holder of the registered Global Note. None of us, the Dealers, the Trustee or any of our respective agents will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in a registered Global Note or for maintaining, supervising or reviewing any records relating to these beneficial ownership interests. See “—Payment of Principal, Premium and Interest” below.

When DTC receives any payment of principal, premium, if any, or interest on a DTC Global Note, we expect that DTC will credit its participants’ accounts with payment in amounts proportionate to their respective beneficial interests in the principal amount of that DTC Global Note as shown on the records of DTC. Payments by the participants to owners of beneficial interests in the DTC Global Note will be the responsibility of the participants, as is now the case with securities held for the accounts of customers registered in “street name.” Distributions for Notes held through Euroclear, Clearstream or any other clearance system as specified in the applicable Pricing Supplement will be credited to the cash accounts of the participants of Euroclear, Clearstream, or such other clearance systems according to the relevant system’s rules and procedures, and to the extent received by their respective depositories.

Exchange and Transfer of Notes

Exchanges

Unless otherwise provided in the applicable Pricing Supplement, we will exchange interests in a registered Global Note for registered Notes in definitive form only if that exchange is permitted by applicable law and, (i) in the case of a DTC Global Note, if:

- DTC notifies us that it is unwilling or unable to continue as depository for the DTC Global Note; or
- DTC ceases to be a clearing agency registered under the Exchange Act, if so required by applicable law or regulation,

and, in either case, a successor depository is not appointed by us within 90 days after receiving notice or becoming aware that DTC is no longer so registered; and (ii) in the case of any other registered Global Note, if:

- the clearing system(s) through which the Notes are cleared and settled is closed for business for a continuous period of 14 days, other than by reason of holidays, statutory or otherwise;
- the clearing system(s) through which the Notes are cleared and settled announces an intention to cease business permanently or does in fact do so;
- we, in our discretion, elect to issue registered Notes in definitive form; or
- after the occurrence of an event of default relating to any registered Global Note, beneficial owners representing a majority in principal amount of the registered Global Note advise the relevant clearing system through its participants to cease acting as depository for the registered Global Note.

The registered Notes in definitive form (referred to herein as “**definitive Notes**”) issued in exchange for the registered Global Note will be in authorized denominations and will have similar terms and will be in an amount equal to the aggregate principal amount of the registered Global Note. These definitive Notes will be registered in the name(s) of person(s) as the relevant clearing system(s) will instruct the relevant registrar. In the case of DTC Global Notes, it is expected that these instructions may be based on directions that DTC received from DTC participants regarding ownership of beneficial interests in the DTC Global Notes. Except as provided above, owners of beneficial interests in a registered Global Note will not be entitled to receive physical delivery of definitive Notes and will not be considered registered holders of these Notes for any purpose.

Any definitive Note issued under the circumstances described in the preceding paragraph will be transferable in whole or in part in an authorized denomination upon the surrender of that Note, together with the form of transfer endorsed on that Note duly completed and executed, at the specified office of the relevant registrar or of any transfer agent. In the case of a transfer in part only, a new definitive Note for the balance not transferred will be issued to the transferor. Each new definitive Note to be issued upon transfer will, within three (3) Business Days of receipt of that form of transfer, be delivered to the transferee at the office of the relevant registrar or transfer agent or mailed at the risk of the holder entitled to the definitive Note to the address specified in that form of transfer. No service charge will be made to a holder for any transfer of a definitive Note, but we may require payment of a sum sufficient to cover any stamp or other tax, duty, assessment or governmental charge that may be imposed in connection therewith.

In case any definitive Note shall at any time become mutilated, defaced, destroyed, lost or stolen, and such definitive Note or evidence of the loss, theft or destruction thereof satisfactory to us and the relevant registrar, and such other documents or proof as may be required by us and the relevant registrar, shall be delivered to the relevant registrar, the relevant registrar shall issue a new definitive Note of like tenor and principal amount having a serial number not contemporaneously outstanding, in exchange and substitution for the mutilated or defaced definitive Note or in lieu of the definitive Note destroyed, lost or stolen but, in the case of any destroyed, lost or stolen definitive Note, only upon receipt of evidence satisfactory to us and the relevant registrar that such definitive Note was destroyed, stolen or lost, and, if required, upon receipt of indemnity satisfactory to us and the relevant registrar. Upon the issuance of any substituted definitive Note, we may require the payment of a sum sufficient to cover all expenses and reasonable charges connected with the preparation and delivery of a new definitive Note. If any definitive Note which has matured or has been redeemed or repaid or is about to mature or to be redeemed or repaid shall become mutilated, defaced, destroyed, lost or stolen, we may, instead of issuing a substitute definitive Note, pay or authorize the payment of the same (without surrender thereof except in the case of a mutilated or defaced definitive Note) upon compliance by the holder with the provisions of this paragraph.

Transfers

DTC may grant proxies or otherwise authorize its participants (or persons holding beneficial interests in the Notes through its participants) to exercise any rights of a holder or take any other actions that a holder is entitled to take under the applicable Indenture or the Notes. Euroclear, Clearstream or any other clearance system as specified in the applicable Pricing Supplement will take any action permitted to be taken by a holder under the applicable Indenture or the Notes on behalf of its participant only in accordance with its relevant rules and procedures and, for interests in a DTC Global Note, subject to the ability of the DTC participant of Euroclear, Clearstream or such other clearance system to effect such actions of such clearance system on its behalf through DTC. Because DTC can only act on behalf of its participants, who in turn act on behalf of indirect participants, the ability of a beneficial owner to pledge its interest in the Notes to persons or entities that do not participate in the DTC system or take action with respect to that interest, may be limited by the lack of a definitive certificate for that interest. The laws of some jurisdictions may require that certain purchasers of securities take physical delivery of these securities in definitive form. These limits and laws may impair the ability of a beneficial owner to transfer beneficial interests in a DTC Global Note.

Subject to compliance with the transfer restrictions applicable to the Global Notes described under “Plan of Distribution—Sales Restrictions,” cross-market transfers between DTC, on the one hand, and directly or indirectly through Clearstream or Euroclear accountholders, on the other, will be effected by the relevant clearing system in accordance with its rules and through action taken by the relevant registrar, the Trustee and any custodian with whom the relevant Global Notes have been deposited.

Transfers by an owner of a beneficial interest in a Regulation S Global Note representing the Notes to a transferee who takes delivery of that interest through a Rule 144A Global Note representing the Notes will be made only in accordance with applicable procedures and upon receipt by the Trustee therefor of a written certification from the transferor of the beneficial interest, in the form provided in the applicable Indenture, to the effect that the transfer is being made to a person reasonably believed to be a qualified institutional buyer within the meaning of Rule 144A in a transaction meeting the requirements of Rule 144A.

Transfers by an owner of a beneficial interest in a Rule 144A Global Note representing the Notes to a transferee who takes delivery of the interest through a Regulation S Global Note representing the Notes will be made only in accordance with the applicable procedures and upon receipt by the Trustee therefor of a written certification from the transferor of the beneficial interest, in the form provided in the applicable Indenture, to the effect that the transfer is being made outside the United States to a non-U.S. person in accordance with Regulation S or, if available, Rule 144A under the Securities Act.

Any beneficial interest in one of the Global Notes representing the Notes that is transferred to a person who takes delivery in the form of an interest in another Global Note representing the Notes will, upon transfer, cease to be an interest in that Global Note and become an interest in the other Global Note and, accordingly, will then be subject to any transfer restrictions and other procedures applicable to beneficial interests in the other Global Note.

Payment of Principal, Premium and Interest

We are obligated to make payments of principal, premium, if any, and interest on all Notes in the applicable specified currency or, if the specified currency is not at the time of payment legal tender for the payment of public and private debts, in such other coin or currency of the country which issued the specified currency at the time that the payment is legal tender for the payment of debts. Subject to any fiscal or other laws and regulations applicable in the place of payment, payments on Notes to be made in a specified currency other than in U.S. dollars will be made by wire transfer to an account in the specified currency maintained by the payee, or by a check in the specified currency drawn on a bank in the principal financial center of the country of the specified currency. In the case of Euro, payments will be made in Euros by credit or transfer to a Euro account, or any other account to which Euros may be credited or transferred, or may be made by check. For further information regarding Notes denominated in currencies other than U.S. dollars, see the applicable Pricing Supplement related to any such Notes, which shall include the provisions related to Foreign Currency Notes.

Payment of principal, premium, if any, and interest on any definitive Note at maturity will be made in immediately available funds upon surrender of the Note at a specified office of the applicable paying agent; *provided* that the definitive Note is presented to the paying agent in time for the paying agent to make these payments in immediately available funds under its normal procedures. Payments of interest on any definitive Note, other than at maturity, will be payable by check mailed to the holder of the Note as of the Regular Record Date for the Interest Payment Date at the address shown in the note register. A holder of definitive Notes of U.S.\$10,000,000 or more in

aggregate principal amount, or its equivalent in other currencies, whether of the same or different Series, will be entitled to receive payments of interest, other than interest due at maturity, by wire transfer of immediately available funds if the applicable paying agent has received appropriate written wire transfer instructions not less than 16 days prior to the applicable Interest Payment Date.

The total amount of any principal, premium, if any, and interest due on any registered Global Note on any Interest Payment Date or maturity, will be made available to the applicable paying agent on or prior to that date in accordance with the relevant Indenture and the Notes. The paying agent will make the payment to the relevant clearing system as soon as it possibly can after the monies become available. Each clearing system will credit its participants with payment in amounts proportionate to their respective beneficial interests in the principal amount of the registered Global Note under their existing operating procedures. None of us, the Dealers, the Trustee, any paying agent nor any of our respective agents will have any responsibility or liability for payments by the clearing system. So long as DTC, its nominee, the nominee of the common depository for Euroclear and Clearstream or a nominee of any other clearance system specified in the applicable Pricing Supplement, is the holder of any registered Global Note, DTC, its nominee, the nominee of the common depository for Euroclear and Clearstream or the nominee of any other clearance system specified in the applicable Pricing Supplement, will be considered the sole owner or holder of the Notes represented by that registered Global Note for all purposes under the applicable indenture and the Notes. See the section entitled “—Form of Notes and Registration.”

See “—Principal and Interest” and “—Interest Rates” above for further information.

Notices

Notice to holders of the Global Notes will be given as may be permitted by the procedures of DTC, Euroclear, Clearstream or any other clearing system specified in the applicable Pricing Supplement, as applicable, and any applicable exchange.

All notices regarding the definitive, non-Global Notes will be mailed first class, postage prepaid to the registered owners of the Notes at their addresses appearing in the applicable Note register therefore.

As long as temporary or permanent Regulation S Global Notes are held in their entirety on behalf of Euroclear, Clearstream or any other clearance system specified in the applicable Pricing Supplement, we may substitute the publication in the newspaper for the delivery of the relevant notice by communication from Euroclear, Clearstream and any other clearance system to the beneficial owners of interests in the temporary and permanent Regulation S Global Notes.

Notices to be given by a holder of Notes should be in writing and delivered, together with the related Note(s), to the Trustee specified in the applicable Pricing Supplement for further delivery to the Issuer. While Notes are represented by a registered Global Note, the notice shall be given by the beneficial owner to the Trustee via DTC, Euroclear, Clearstream or any other clearance system as DTC, Euroclear, Clearstream or any other clearance system may approve.

We will also ensure that notices are duly published in a manner which complies with the rules and regulations of any stock exchange on which the Notes are at the time being listed. This notice will be deemed to have been given on the date of the first publication.

Registrar; Transfer Agent; Paying Agents

The Trustee under the applicable Indenture will serve initially as the registrar, transfer agent and paying agent for the Notes. In that capacity, the Trustee will keep at its office in the State of New York, a register, which we refer to as a note register, in which, subject to such reasonable regulations as it may prescribe, the applicable registrar will provide for the registration and transfers of the Notes. We reserve the right to transfer this function to another bank or financial institution.

Registration of transfers of the Notes will be effected without charge, but upon payment (with the giving of such indemnity as the Issuer may require) in respect of any tax or other governmental charges that may be imposed in relation to the transfer. The Issuer will not be required to register or cause to be registered the transfer of the Notes after the Notes have been called for redemption.

Listing

Application may be made to Irish Stock Exchange plc trading as Euronext Dublin (“**Euronext Dublin**”) to admit a Series of Notes to the Official List and for admission to trading on the Global Exchange Market, which is the exchange-regulated market of Euronext Dublin. The Global Exchange Market is not a regulated market for the purposes of Directive 2014/65/EU. Application may also be made to list a Series of Notes on another exchange.

The Trustee

The Bank of New York Mellon will act as Trustee with respect to each Series of Notes, unless otherwise specified in the applicable Pricing Supplement. Notices to the Trustee should be directed to it at The Bank of New York Mellon, 240 Greenwich Street, Floor 7 East, New York, New York 10286. The Trustee also will initially act as registrar, paying agent, transfer agent and agent for service of demands and notices in connection with each Series of Notes, unless otherwise specified in the applicable Pricing Supplement. The Trustee may resign or be removed under circumstances described in such Indenture, and a successor trustee shall be appointed in accordance with the applicable Indenture to act in connection with any Indenture. Any action described in this Offering Memorandum to be taken by the Trustee may then be taken by the successor trustee.

The Trustee in its individual or any other capacity may become the owner or pledgee of Notes and may otherwise deal with the Bank or its affiliates with the same rights it would have if it were not Trustee. Any paying agent, registrar or co-registrar may do the same with like rights.

Each Indenture will contain some limitations on the right of the applicable Trustee should it become a creditor of the Bank, to obtain payment of claims in some cases or to realize on some property received regarding any such claim, as security or otherwise. The Trustee will be permitted to engage in transactions with the Bank. The occurrence of a default under the relevant Indenture could create a conflicting interest for the Trustee. In this case, if the default has not been cured or waived within 90 days after the Trustee has or acquires a conflicting interest, the Trustee generally is required to eliminate the conflicting interest or resign as Trustee for the Notes.

No resignation or removal of the Trustee and no appointment of a successor trustee shall be effective until the acceptance of appointment by the successor trustee in accordance with the provisions of the relevant Indenture.

Governing Law; Consent to Jurisdiction

EACH INDENTURE AND THE NOTES WILL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK; PROVIDED THAT, IN RESPECT OF SUBORDINATED NOTES, (1) WHETHER A TRIGGER EVENT (LEADING TO A WRITE-DOWN) OR A CAPITAL RATIOS EVENT OR A MEXICAN REGULATORY EVENT (LEADING TO A SUSPENSION PERIOD) HAS OCCURRED IS BASED UPON A DETERMINATION BY THE APPLICABLE MEXICAN REGULATOR, AS SET FORTH IN THIS OFFERING MEMORANDUM, IN ACCORDANCE WITH MEXICAN LAW (AS AMENDED FROM TIME TO TIME); (2) WHETHER A WITHHOLDING TAX EVENT OR A TAX EVENT HAS OCCURRED IS BASED UPON A DETERMINATION IN ACCORDANCE WITH MEXICAN LAW (OR OTHER APPLICABLE LAW IN THE CASE OF A WITHHOLDING TAX EVENT INVOLVING A JURISDICTION OTHER THAN MEXICO), AS AMENDED FROM TIME TO TIME, EVIDENCED BY AN OPINION OF A NATIONALLY RECOGNIZED LAW FIRM AND, IF REQUIRED, A CERTIFICATION BY US; (3) WHETHER A CAPITAL EVENT HAS OCCURRED IS DETERMINED BY US, AS SET FORTH IN THIS OFFERING MEMORANDUM, IN ACCORDANCE WITH MEXICAN LAW (AS AMENDED FROM TIME TO TIME); AND (4) THE RANKING AND SUBORDINATION OF THE SUBORDINATED NOTES, WILL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, MEXICAN LAW (AS AMENDED FROM TIME TO TIME). WITH RESPECT TO SUBORDINATED NOTES, WE WILL WAIVE ANY RIGHTS WE MAY HAVE UNDER THE LAW OF THE STATE OF NEW YORK NOT TO GIVE EFFECT TO ANY SUCH DETERMINATION TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW AND ANY PROCEEDINGS IN RESPECT OF OUR LIQUIDATION OR RESOLUTION WILL BE CONDUCTED IN ACCORDANCE WITH THE MEXICAN BANKING LAW, AND ANY MERGER OR CONSOLIDATION SHALL BE SUBJECT TO APPLICABLE APPROVALS UNDER THE MEXICAN BANKING LAW AND ANY OTHER APPLICABLE MEXICAN LAWS, AS AMENDED FROM TIME TO TIME.

The Bank will consent to the jurisdiction of the Supreme Court of the State of New York, Borough of Manhattan, County of New York, or the United States District Court for the Southern District of New York and will

agree that all disputes under the relevant Indenture and the Notes may be submitted to the jurisdiction of such courts. The Bank will irrevocably consent to and waive to the fullest extent permitted by law any objection that it may have to the laying of venue of any suit, action or proceeding against the Bank or its properties, assets and revenues with respect to the relevant Indenture and the Notes or any such suit, action or proceeding in any such court and any right to which the Bank may be entitled on account of place of residence or domicile.

To the extent that the Bank or any of its revenues, assets or properties shall be entitled to any immunity from suit, from the jurisdiction of any such court, from attachment prior to judgment, from attachment in aid of execution of judgment, from execution of a judgment or from any other legal or judicial process remedy, the Bank will irrevocably agree not to claim and will irrevocably waive such immunity to the fullest extent permitted by the laws of such jurisdiction.

The Bank will agree that service of all writs, claims, process and summons in any suit, action or proceeding against the Bank or its properties, assets or revenues with respect to the relevant Indenture and the Notes or any suit, action or proceeding to enforce or execute any judgment brought against the Bank in the State of New York may be made upon CT Corporation System, 28 Liberty St., New York, New York 10005, and the Bank will irrevocably appoint CT Corporation System as its agent to accept such service of any and all such writs, claims, process and summonses.

Unclaimed Money, Prescription

Unless otherwise specified in the applicable Pricing Supplement, if money deposited with the Trustee or any agent for the payment of principal of, premium, if any, or interest or Additional Amounts (as defined below), if any, on a Series of Notes remains unclaimed for two years, the Trustee or such paying agent shall return the money to us, upon our written request, subject to applicable unclaimed property law. After that, holders of such Series of Notes entitled to the money must look to us for payment unless applicable unclaimed property law designates another person. Other than as set forth in this paragraph, the Indenture relating to any Series of Notes will not provide for any prescription periods for the payment of principal of, premium, if any, or interest or Additional Amounts, if any, on such Series of Notes.

Currency Rate Indemnity

The Bank has agreed that, if a judgment or order made by any court for the payment of any amount in respect of any Indenture is expressed in a currency other than the Specified Currency, the Bank will indemnify the Trustee in respect of such Indenture and the relevant holders against any deficiency arising from any variation in rates of exchange between the date as of which the denomination currency is notionally converted into the judgment currency for the purposes of the judgment or order and the date of actual payment. This indemnity will constitute a separate and independent obligation from the Bank's other obligations under the relevant Indenture, will give rise to a separate and independent cause of action, will apply irrespective of any indulgence granted from time to time and will continue in full force and effect notwithstanding any judgment or order for a liquidated sum or sums in respect of amounts due under the relevant Indenture or the Notes.

Replacement of Notes

In case of mutilated, defaced, destroyed, lost or stolen Notes, application for replacement thereof may be made to the applicable Trustee or to the Bank. Any such Note shall be replaced by the Trustee in compliance with such procedures, on such terms as to evidence and indemnification as the Trustee and the Bank may require and subject to any applicable law or regulation. All such costs as may be incurred in connection with the replacement of any Notes shall be borne by the applicant. Mutilated Notes must be surrendered before new ones will be issued.

BOOK-ENTRY CLEARANCE SYSTEMS

The following summary of certain provisions of the Notes does not purport to be complete and is subject to all of the provisions of the Notes. The terms and conditions stated below will apply to each Note unless otherwise specified in the applicable pricing supplement. The terms of the Notes described in this Offering Memorandum, including the maturities and interest rates, may differ from one Note to another. The terms of a Tranche of Notes, as defined below, will be specified in a pricing supplement, the form of which is included under “Annex C—Form of Pricing Supplement.” The pricing supplement may also add, update or change information contained in this Offering Memorandum. It is important for you to consider the information contained in this Offering Memorandum and the applicable pricing supplement in making your investment decision.

The information set out below is subject to any change in or reinterpretation of the rules, regulations and procedures of DTC, Euroclear or Clearstream (together, the “Clearing Systems”) currently in effect. The information in this section concerning the Clearing Systems has been obtained from sources that we believe to be reliable, but neither we nor any Dealer takes any responsibility for the accuracy thereof. Investors wishing to use the facilities of any of the Clearing Systems are advised to confirm the continued applicability of the rules, regulations and procedures of the relevant Clearing System. Neither we nor any other party to any indenture will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Notes held through the facilities of any Clearing System or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

Clearance and Settlement; Clearing Systems

The Notes that we offer under this Program may be held through one or more international and domestic clearing systems, principally the book-entry systems operated by DTC in the United States, and Euroclear, Clearstream or any other clearance system specified in the applicable Pricing Supplement outside of the United States. Electronic securities and payment transfer, processing, depository and custodial links have been established among these systems and others, either directly or through custodians and depositories, which enable Notes to be issued, held and transferred among the clearing systems. The Dealers have direct electronic links with DTC, Clearstream and Euroclear. Special procedures have been established among these clearing systems and the relevant Dealers to facilitate clearance and settlement of certain Notes traded across borders in the secondary market. Cross-market transfers of registered Global Notes for which payments will be made in U.S. dollars and which will be issued in global form may be cleared and settled using these procedures on a delivery against payment basis. Cross-market transfers of Notes in other than global form may be cleared and settled under other procedures established among the relevant Dealer(s), and the relevant clearing systems. Investors in Notes issued outside of the United States, its territories and possessions must initially hold their interests in the Notes through Euroclear, Clearstream or any other clearance system specified in the applicable Pricing Supplement.

Although DTC, Euroclear and Clearstream have agreed to the procedures described below in order to facilitate the transfers of Notes among participants of DTC, Euroclear and Clearstream, they are under no obligation to perform or continue to perform the procedures and the procedures may be modified or discontinued at any time. Neither we, the Dealers, nor any affiliate or person controlled by any of us will have any responsibility for the performance of the respective obligations under the rules and procedures governing the operations of DTC, Euroclear, Clearstream or any other clearance system specified in the applicable Pricing Supplement, or of their respective direct or indirect participants. In all cases, clearance and settlement of the Notes will be governed by the rules and procedures established by the relevant clearing system(s) and in effect at the time of clearance and settlement.

DTC

DTC has advised us that it is a limited purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code and a “clearing agency” registered pursuant to the provisions of Section 17A of the Exchange Act. DTC holds and provides asset servicing for issues of U.S. and non-U.S. equity, corporate and municipal debt, and money market instruments that DTC’s participants (“**DTC participants**”) deposit with DTC. DTC also facilitates the post-trade settlement among DTC participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between DTC participants’ accounts. These services eliminate the need for physical movement of securities certificates. DTC participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of

The Depository Trust & Clearing Corporation (“**DTCC**”). DTCC, in turn, is owned by a number of DTC participants and Members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation and Emerging Markets Clearing Corporation (also subsidiaries of DTCC), as well as by the New York Stock Exchange and the Financial Industry Regulatory Authority, Inc. Access to the depository system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a DTC participant, either directly or indirectly. The rules applicable to DTC’s participants are on file with the SEC. More information about DTC can be found at its website at <http://www.dtcc.com>. The information concerning DTC and its book-entry system has been obtained from sources that we believe are reliable, but we take no responsibility for the accuracy thereof.

Clearstream

Clearstream holds securities for its participating organizations (“**Clearstream participants**”) and facilitates the clearance and settlement of securities transactions between Clearstream participants through electronic book-entry changes in accounts of Clearstream participants thereby eliminating the need for physical movement of certificates. Clearstream provides to Clearstream participants, among other things, services for safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Clearstream also interfaces with domestic securities markets in several countries. Clearstream is registered as a bank in Luxembourg, and as such is subject to regulation by the *Commission de Surveillance du Secteur Financier and the Banque Centrale du Luxembourg*, which supervise and oversee the activities of Luxembourg banks. Clearstream participants are world-wide financial institutions including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations, and may include the paying agent. Indirect access to Clearstream is available to other institutions that clear through or maintain a custodial relationship with a Clearstream participant. Clearstream has established an electronic bridge with Euroclear as the operator of the Euroclear system (the “**Euroclear Operator**”) in Brussels to facilitate settlement of trades between Clearstream and the Euroclear Operator. Distributions with respect to Notes held beneficially through Clearstream will be credited to cash accounts of Clearstream participants in accordance with its rules and procedures, to the extent received by the depository for Clearstream.

Euroclear

Euroclear holds securities and book-entry interests in securities for participating organizations (“**Euroclear participants**”) and facilitates the clearance and settlement of securities transactions between Euroclear participants, and between Euroclear participants and participants of certain other securities intermediaries through electronic book-entry changes in accounts of such participants or other securities intermediaries. Euroclear provides Euroclear participants, among other things, with safekeeping, administration, clearance and settlement, securities lending and borrowing, and related services. Euroclear participants are investment banks, securities brokers and dealers, banks, central banks, supranationals, custodians, investment managers, corporations, trust companies and certain other organizations, and may include the paying agent. Non-participants in Euroclear may hold and transfer beneficial interests in a registered Global Note through accounts with a participant in the Euroclear system or any other securities intermediary that holds a book-entry interest in a registered Global Note through one or more securities intermediaries standing between such other securities intermediary and Euroclear.

Securities clearance accounts and cash accounts with the Euroclear Operator are governed by the Terms and Conditions Governing Use of Euroclear and the related Operating Procedures of the Euroclear System, and applicable Belgian law (collectively, the “**Terms and Conditions**”). The Terms and Conditions govern transfers of securities and cash within Euroclear, withdrawals of securities and cash from Euroclear, and receipts of payments with respect to securities in Euroclear. All securities in Euroclear are held on a fungible basis without attribution of specific certificates to specific securities clearance accounts. The Euroclear Operator acts under the Terms and Conditions only on behalf of Euroclear participants, and has no record or relationship with persons holding through Euroclear participants.

Distributions with respect to Notes held beneficially through Euroclear will be credited to the cash accounts of Euroclear participants in accordance with the Terms and Conditions, to the extent received by the depository for Euroclear.

Other Clearing Systems

The applicable Pricing Supplement will specify any other clearing system that will be available for a particular offering of Notes, including the clearance and settlement procedures for that clearing system. The clearing system will be agreed upon by the Bank and the Dealer(s).

Book-Entry Procedures for the Global Notes

Ownership of beneficial interests in a Global Note representing the Notes will be limited to the clearing system through which these interests are held, and its direct and indirect participants. Beneficial interests in a Global Note will be shown on, and transfers of those ownership interests will be effected only through, records maintained by such clearing system, and its respective participants for that Global Note. The conveyance of notices and other communications by such clearing system to its participants and by its participants to owners of beneficial interests in the Notes will be governed by arrangements among them, subject to any statutory or regulatory requirements in effect. Any interest in registered Global Notes will be transferable only under the rules and procedures of DTC, Euroclear, Clearstream or any other applicable clearance system.

Transfers of Notes Represented by Registered Global Notes

Primary Distribution

General. Distribution of the Notes will be cleared through one or more of the clearing systems described above or any other clearing system specified in the applicable Pricing Supplement. Payment for Notes will be made on a delivery versus payment or free delivery basis, as more fully described in the applicable Pricing Supplement.

Registered Notes. We and the relevant Dealer(s) will agree that either global clearance and settlement procedures or specific clearance and settlement procedures should be available for any Series of Notes, as specified in the applicable Pricing Supplement. Clearance and settlement procedures may vary from one Series of Notes to another according to the specified currency of the Notes of that Series. Customary clearance and settlement procedures are described under the specific clearance and settlement procedures below. Application will be made to the relevant clearing system(s) for the Notes of the relevant Series to be accepted for clearance, and the clearance numbers applicable to each clearance system will be specified in the applicable Pricing Supplement.

Clearance and Settlement Procedures—DTC. DTC participants holding Notes through DTC on behalf of investors will follow the settlement practices applicable to U.S. corporate debt obligations in DTC's Same-Day Funds Settlement System. Notes will be credited to the securities custody accounts of such DTC participants against payment in same-day funds on the settlement date.

Clearance and Settlement Procedures—Euroclear and Clearstream. Investors electing to hold their Notes through Euroclear and/or Clearstream accounts will follow the settlement procedures applicable to conventional eurobonds in registered form. Notes will be credited to the securities custody accounts of Euroclear and/or Clearstream participants, as the case may be, on the Business Day following the settlement date against payment for value on the settlement date.

Secondary Market Trading

Trading between DTC participants. Secondary market trading between DTC participants will occur in the ordinary way in accordance with DTC's rules and will be settled using procedures applicable to United States corporate debt obligations in DTC's Same-Day Funds Settlement System in same-day funds, if payment is made in U.S. dollars, or free of payment if payment is made in a currency other than U.S. dollars. Where payment is made in a currency other than U.S. dollars, separate payment arrangements outside of the DTC system are required to be made between DTC participants.

Trading between Euroclear and/or Clearstream participants. Secondary market trading between Euroclear or Clearstream participants will occur in the ordinary way under the applicable rules and operating procedures of Euroclear and Clearstream and will be settled using procedures applicable to conventional eurobonds in registered form.

Trading between DTC Seller and Euroclear or Clearstream Purchaser Single Global Note Issues. When Notes represented by a DTC Global Note are to be transferred from the account of a DTC participant to the account of a Euroclear or Clearstream participant, the purchaser must send instructions to Euroclear or Clearstream through a participant at least one Business Day prior to settlement. Euroclear or Clearstream will instruct their respective DTC participants to receive the Notes against payment or free of payment. After the settlement has been completed, the interests in the Notes will be credited to the respective clearing system and by the clearing system, under its usual procedures, to the account of the relevant Euroclear or Clearstream participant. Credit for the Notes will appear on the next day (European time) and cash debit will be back-valued to, and the interest on the Notes will accrue from, the value date (which would be the preceding day, when settlement occurs in New York). If settlement is not completed

on the intended value date, meaning that the trade fails, the Euroclear or Clearstream cash debit will be valued as of the actual settlement date.

Euroclear or Clearstream participants will need to make available to the respective clearing systems the funds necessary to process same-day funds settlement. The most direct means of doing so is to pre-position funds for settlement, either from cash on hand or existing lines of credit, as they would for any settlement occurring within Euroclear or Clearstream. Under this approach, participants may take on credit exposure to Euroclear or Clearstream until the Notes are credited to their accounts one Business Day later.

As an alternative, if Euroclear or Clearstream has extended a line of credit to the participants, participants can elect not to pre-position funds and allow that credit line to be drawn on to finance settlement. Under this procedure, Euroclear or Clearstream participants purchasing Notes would incur overdraft charges for one Business Day, assuming they cleared the overdraft when the Notes were credited to their accounts. However, interest on the Notes would accrue from the value date. Therefore, in many cases, the investment income on Notes earned during that one day period may substantially reduce or offset the amount of the overdraft charges, although this result will depend on each participant's particular cost of funds.

Because the settlement will take place during New York business hours, DTC participants can employ their usual procedures for delivering Notes to Euroclear's or Clearstream's DTC participant for the benefit of Euroclear or Clearstream participants. The sale proceeds will be available to the DTC seller on the settlement date. Thus, to the DTC participants, a cross-market transaction will settle no differently than a trade between two DTC participants.

Dual Global Note Issues. When Notes are to be transferred from the account of a DTC participant to the account of a Euroclear or Clearstream participant, the DTC participant will deliver the Notes free of payment to the appropriate account of the custodian at DTC by 11:00 a.m. (New York City time) on the settlement date together with instructions for delivery to the relevant Euroclear or Clearstream participant. Separate payment arrangements are required to be made between the relevant Euroclear or Clearstream participant and the DTC participant. The applicable registrar, as custodian, will (i) decrease the amount of Notes registered in the name of the nominee of DTC and represented by the DTC Global Note and (ii) increase the amount of Notes registered in the name of the nominee of the common depository for Euroclear and Clearstream and represented by the registered global note. The depository will deliver such Notes free of payment to Euroclear or Clearstream for credit to the relevant participant in such clearing system on the Business Day following the settlement date.

Trading Between a Euroclear or Clearstream Seller and a DTC Purchaser

Single Global Note Issues. Due to time zone differences in their favor, Euroclear or Clearstream participants may employ their customary procedures for transactions in which Notes represented by a DTC Global Note are to be transferred by the respective clearing system. The seller must send instructions to Euroclear or Clearstream through a participant at least one Business Day prior to settlement. In these cases, Euroclear or Clearstream will instruct the depository to credit the Notes to the DTC participant's account against payment. The payment will then be reflected in the account of the Euroclear or Clearstream participant the following day, and receipt of the cash proceeds in the Euroclear or Clearstream participant's account will be back-valued to the value date, which would be the preceding day, when settlement occurs in New York. If the Euroclear participant or Clearstream participant has a line of credit with its respective clearing system and elects to draw on that line of credit in anticipation of receipt of the sale proceeds in its account, the back-valuation may substantially reduce or offset any overdraft charges incurred over the one-day period. If settlement is not completed on the intended value date (*i.e.*, the trade fails), receipt of the cash proceeds in the Euroclear or Clearstream participant's account would instead be valued as of the actual settlement date.

As is the case with sales of Notes represented by a DTC Global Note by a DTC participant to a Euroclear or Clearstream participant, participants in Euroclear and Clearstream will have their accounts credited the day after their settlement date.

Dual Global Note Issues. When interests in Notes are to be transferred from the account of a Euroclear or Clearstream participant to the account of a DTC participant, the relevant Euroclear or Clearstream participant must provide settlement instructions for delivery of the Notes free of payment to Euroclear or Clearstream by 7:45 p.m., Brussels or Luxembourg time, one Business Day prior to the settlement date. Euroclear or Clearstream, will in turn provide appropriate settlement instructions to the common depository and the registrar for delivery to the DTC participant. Separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream participant. On the settlement date, the custodian will deliver the Notes free of payment to the appropriate DTC account of the DTC participant and will instruct the applicable registrar to (i) decrease the amount

of Notes registered in the name of the nominee of the common depositary for Euroclear and Clearstream and represented by the registered Global Note and (ii) increase the amount of Notes registered in the name of the nominee of DTC and represented by the DTC Global Note.

TRANSFER RESTRICTIONS

General

The Notes have not been registered, and will not be registered, under the Securities Act or any state securities laws, and the Notes may not be offered or sold except pursuant to an effective registration statement or pursuant to transactions exempt from, or not subject to, registration under the Securities Act. Accordingly, the Notes issued under the Program will be offered and sold only:

- to persons reasonably believed to be qualified institutional buyers (as defined in Rule 144A) pursuant to Rule 144A under the Securities Act; and
- outside of the United States, to certain persons, other than U.S. persons, in offshore transactions meeting the requirements of Regulation S under the Securities Act.

Purchasers' Representations and Restrictions on Resale and Transfer

Each purchaser of Notes and each owner of any beneficial interest therein will be deemed, by its acceptance or purchase thereof, to have represented and agreed as follows:

- (1) it is purchasing the Notes for its own account or an account with respect to which it exercises sole investment discretion and it and any such account is either (a) a qualified institutional buyer and is aware that the sale to it is being made pursuant to Rule 144A or (b) a non-U.S. person that is outside the United States;
- (2) it acknowledges that the Notes have not been, and will not be, registered under the Securities Act or with any securities regulatory authority of any state and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except as set forth below;
- (3) it understands and agrees that Notes initially offered in the United States to persons reasonably believed to be "qualified institutional buyers" will be represented by one or more Rule 144A Global Notes and that Notes offered outside the United States pursuant to Regulation S will be represented by one or more Regulation S Global Notes;
- (4) it will not offer, pledge, resell or otherwise transfer any of such Notes except (a) to us, (b) within the United States to a person reasonably believed to be a qualified institutional buyer in a transaction complying with Rule 144A under the Securities Act, (c) outside the United States in compliance with Rule 903 or 904 of Regulation S under the Securities Act, (d) pursuant to an exemption from registration under the Securities Act (if available) or (e) pursuant to an effective registration statement under the Securities Act, in each case in accordance with all applicable securities laws of the states of the United States and other jurisdictions;
- (5) it agrees that it will give to each person to whom it transfers the Notes notice of any restrictions on transfer of such Notes;
- (6) it acknowledges that prior to any proposed transfer of Notes (other than pursuant to an effective registration statement or in respect of Notes sold) the holder of such Notes may be required to provide certifications relating to the manner of such transfer as provided in the applicable indenture, including with respect to Notes sold or transferred pursuant to Rule 144A or Regulation S;
- (7) it acknowledges that the trustee, registrar or transfer agent for the Notes may not be required to accept for registration or transfer of any Notes acquired by it, except upon presentation of evidence satisfactory to us that the restrictions set forth herein have been complied with;
- (8) it acknowledges that we, the Dealers and other persons will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements and agrees that if any of the acknowledgements, representations and agreements deemed to have been made by its purchase of the Notes are no longer accurate, it will promptly notify us and the Dealers; and
- (9) if it is acquiring the Notes as a fiduciary or agent for one or more investor accounts, it represents that it has sole investment discretion with respect to each such account and it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each account.

Legends

The following is the form of restrictive legend that will appear on the face of any Rule 144A Global Note, and which will be used to notify transferees of the foregoing restrictions on transfer.

THE NOTES EVIDENCED HEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”), OR ANY STATE OR OTHER SECURITIES LAWS, AND MAY NOT BE OFFERED, SOLD, PLEDGED, OR OTHERWISE TRANSFERRED EXCEPT IN ACCORDANCE WITH THE FOLLOWING SENTENCE. BY ITS ACQUISITION HEREOF OR OF A BENEFICIAL INTEREST HEREIN, THE HOLDER OF THIS NOTE BY ITS ACCEPTANCE HEREOF (1) REPRESENTS THAT IT, AND ANY ACCOUNT FOR WHICH IT IS ACTING, (A) IS A QUALIFIED INSTITUTIONAL BUYER (WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT (“RULE 144A”)) OR (B) IS NOT A U.S. PERSON AND IS ACQUIRING THIS NOTE IN AN OFFSHORE TRANSACTION PURSUANT TO RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT (“REGULATION S”) AND, WITH RESPECT TO (A) AND (B), EXERCISES SOLE INVESTMENT DISCRETION WITH RESPECT TO SUCH ACCOUNT, (2) AGREES FOR THE BENEFIT OF THE BANK THAT IT WILL NOT OFFER, SELL, PLEDGE OR OTHERWISE TRANSFER THIS NOTE OR ANY BENEFICIAL INTEREST HEREIN, EXCEPT (A) (I) TO THE BANK OR ANY SUBSIDIARY THEREOF, (II) PURSUANT TO A REGISTRATION STATEMENT THAT HAS BECOME EFFECTIVE UNDER THE SECURITIES ACT, (III) TO A QUALIFIED INSTITUTIONAL BUYER IN COMPLIANCE WITH RULE 144A, (IV) IN AN OFFSHORE TRANSACTION COMPLYING WITH THE REQUIREMENTS OF RULE 903 OR RULE 904 OF REGULATION S, OR (V) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT (IF AVAILABLE), AND (B) IN ACCORDANCE WITH ALL APPLICABLE SECURITIES LAWS OF THE STATES OF THE UNITED STATES AND OTHER JURISDICTIONS, AND (3) AGREES THAT IT WILL GIVE TO EACH PERSON TO WHOM THIS NOTE IS TRANSFERRED A NOTICE SUBSTANTIALLY TO THE EFFECT OF THIS LEGEND. THE TERMS “OFFSHORE TRANSACTION,” “UNITED STATES” AND “U.S. PERSON” HAVE THE RESPECTIVE MEANINGS GIVEN TO THEM BY REGULATION S.

The following is the form of restrictive legend which will appear on the face of any Regulation S Global Note, and which will be used to notify transferees of the foregoing restrictions on transfer:

THE NOTES EVIDENCED HEREBY HAVE NOT BEEN REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”), OR ANY STATE SECURITIES LAWS. PRIOR TO EXPIRATION OF THE 40-DAY DISTRIBUTION COMPLIANCE PERIOD (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT (“REGULATION S”)), THIS NOTE MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, A U.S. PERSON, EXCEPT TO A QUALIFIED INSTITUTIONAL BUYER IN COMPLIANCE WITH RULE 144A UNDER THE SECURITIES ACT IN A TRANSACTION MEETING THE REQUIREMENTS OF THE INDENTURE. THE TERMS “UNITED STATES” AND “U.S. PERSON” HAVE THE RESPECTIVE MEANINGS GIVEN TO THEM BY REGULATION S.

The following is the form of restrictive legend which will appear on the face of any Regulation S Global Note and any Rule 144A Global Note, and which will be used to notify transferees of the foregoing restrictions on transfer:

THE NOTES HAVE NOT BEEN AND WILL NOT BE REGISTERED WITH THE MEXICAN NATIONAL SECURITIES REGISTRY (*REGISTRO NACIONAL DE VALORES*, OR “RNV”) MAINTAINED BY THE CNBV AND, THEREFORE, MAY NOT BE OFFERED OR SOLD PUBLICLY IN MEXICO; THE NOTES MAY BE OFFERED OR SOLD IN MEXICO, ON A PRIVATE PLACEMENT BASIS, TO INVESTORS THAT QUALIFY AS INSTITUTIONAL OR QUALIFIED INVESTORS, SOLELY PURSUANT TO THE PRIVATE PLACEMENT EXEMPTION SET FORTH IN ARTICLE 8 OF THE

MEXICAN SECURITIES MARKET LAW (*LEY DEL MERCADO DE VALORES*) AND REGULATIONS THEREUNDER. BBVA MÉXICO, S.A., INSTITUCIÓN DE BANCA MÚLTIPLE, GRUPO FINANCIERO BBVA MÉXICO (THE “COMPANY”) WILL NOTIFY AND FILE CERTAIN DOCUMENTATION WITH THE CNBV IN RESPECT OF THE TERMS AND CONDITIONS OF THE OFFERING OF THE NOTES OUTSIDE OF MEXICO. SUCH NOTICE WILL BE SUBMITTED TO THE CNBV FOR STATISTICAL AND INFORMATIONAL PURPOSES ONLY TO THE CNBV TO COMPLY WITH ARTICLE 7, SECOND PARAGRAPH, OF THE MEXICAN SECURITIES MARKET LAW AND REGULATIONS THEREUNDER. THE DELIVERY TO, AND RECEIPT BY, THE CNBV IS NOT A REQUIREMENT FOR THE VALIDITY OF THE NOTES, DOES NOT CONSTITUTE OR IMPLY ANY CERTIFICATION AS TO THE INVESTMENT QUALITY OF THE NOTES, OUR SOLVENCY, LIQUIDITY OR CREDIT QUALITY OR THE ACCURACY OR COMPLETENESS OF THE INFORMATION SET FORTH IN THE OFFERING MEMORANDUM. THE OFFERING MEMORANDUM RELATING TO THIS NOTE IS SOLELY THE RESPONSIBILITY OF THE COMPANY AND HAS NOT BEEN REVIEWED OR AUTHORIZED BY THE CNBV, AND MAY NOT BE PUBLICLY DISTRIBUTED IN MEXICO.

TAXATION

United States Taxation

This section describes the material United States federal income tax consequences of owning the Notes issued under the Program. It applies only to holders who hold such Notes as capital assets for tax purposes. This section addresses only United States federal income taxation and does not discuss all of the tax consequences that may be relevant to holders in light of their individual circumstances, including foreign, state or local tax consequences, and tax consequences arising under the Medicare contribution tax on net investment income, the alternative minimum tax, or special timing rules prescribed under Section 451(b) of the U.S. Internal Revenue Code of 1986, as amended (the “Code”). This section does not apply to a holder who is a member of a class of holders subject to special rules, such as:

- a dealer in securities or currencies;
- a trader in securities that elects to use a mark-to-market method of accounting for its securities holdings;
- a bank;
- an insurance company;
- a tax-exempt organization;
- a regulated investment company;
- a real estate investment trust;
- a person that actually or constructively owns 10% or more of the combined voting power of our voting stock or of the total value of our stock;
- a person that owns Notes that are a hedge or that are hedged against interest rate or currency risks;
- a person that owns Notes as part of a straddle or conversion transaction for tax purposes;
- a person that purchases or sells Notes as part of a wash sale for tax purposes;
- a United States expatriate; or
- a United States holder (as defined below) whose functional currency for tax purposes is not the U.S. dollar.

This section deals only with Notes that are due to mature 30 years or less from the date on which they are issued, and that do not reference the performance of United States equities. The United States federal income tax treatment of any other Notes will be discussed in the applicable Pricing Supplement.

This section is based on the Code, its legislative history, existing and proposed regulations under the Code, published rulings and court decisions, all as currently in effect. These authorities are subject to change, possibly on a retroactive basis.

If an entity or arrangement that is treated as a partnership for United States federal income tax purposes holds the Notes, the United States federal income tax treatment of a partner will generally depend on the status of the partner and the tax treatment of the partnership. A partner in a partnership holding the Notes should consult its tax advisor with regard to the United States federal income tax treatment of an investment in the Notes.

Prospective purchasers are advised to consult their own tax advisor concerning the consequences of owning Notes in their particular circumstances under the Code and the laws of any other taxing jurisdiction.

United States Holders

This subsection describes the tax consequences to a United States holder. A person is a United States holder if it is a beneficial owner of a Note and it is, for United States federal income tax purposes:

- an individual citizen or resident of the United States;

- a domestic corporation (including an entity treated as a domestic corporation for United States federal income tax purposes);
- an estate whose income is subject to United States federal income tax regardless of its source; or
- a trust if a United States court can exercise primary supervision over the trust’s administration and one or more United States persons are authorized to control all substantial decisions of the trust, or the trust has a valid election in effect under applicable United States Treasury regulations to be treated as a United States person.

This subsection does not apply to persons who are not United States holders. Such persons should refer to “—Non-United States Holders” below.

Senior Notes

Payments of Interest

Except as described below in the case of interest on a discount Senior Note that is not qualified stated interest (each as defined below under “—Original Issue Discount—General”), a United States holder will be taxed on any interest on Senior Notes held by such holder, including any tax withheld from such interest and any additional amounts paid with respect to such withholding tax, including withholding tax on payments of such additional amounts (collectively, “**additional amounts**”), whether payable in U.S. dollars or a foreign currency, as ordinary income at the time the United States holder receives the interest or when it accrues, depending on the United States holder’s method of accounting for tax purposes.

Interest paid on Senior Notes issued directly by us (and not through the Texas Agency), original issue discount, if any, accrued with respect to such Senior Notes and any additional amounts with respect to such Senior Notes will generally be treated as income from sources outside the United States for purposes of determining the foreign tax credit allowable to a United States holder. Based on the nature of the activities of the Texas Agency, the relationship between the Texas Agency and the Bank and the intended use of the proceeds of Senior Notes issued by us through the Texas Agency, interest paid on Senior Notes issued by us through the Texas Agency, original issue discount, if any, accrued with respect to such Senior Notes and any additional amounts with respect to such Senior Notes will also generally be treated as income from sources outside the United States for purposes of determining the foreign tax credit allowable to a United States holder. However, this conclusion is a factual determination and thus may be subject to change. It is therefore possible that such payments and accruals on the Senior Notes issued by us through the Texas Agency could be considered as income from sources within the United States in future years. Prospective investors should consult their tax advisors regarding the United States federal income tax consequences of such a change in the sourcing of such payments and accruals on the Senior Notes issued by us through the Texas Agency. The remainder of this discussion assumes that interest paid on Senior Notes issued by us through the Texas Agency, original issue discount, if any, accrued with respect to such Senior Notes and any additional amounts with respect to such Senior Notes will generally be treated as income from sources outside the United States.

Interest paid on Senior Notes, original issue discount, if any, accrued with respect to Senior Notes and any additional amounts with respect to Senior Notes will generally be “passive” income for purposes of computing the foreign tax credit. A United States holder may, subject to generally applicable limitations and conditions (including a minimum holding period requirement), be entitled to a foreign tax credit for any Mexican withholding tax imposed on interest payments on the Senior Notes. However, recently issued Treasury regulations (the “**Foreign Tax Credit Regulations**”) impose additional requirements for foreign taxes to be eligible for a foreign tax credit, and there can be no assurance that those requirements will be satisfied. Instead of claiming a foreign tax credit, a United States holder may be able to deduct any Mexican withholding tax imposed on interest payments on the Senior Notes, subject to generally applicable limitations under U.S. law (including that a United States holder is not eligible for a deduction for otherwise creditable foreign income taxes paid or accrued in a taxable year if such United States holder claims a foreign tax credit for any foreign income taxes paid or accrued in the same taxable year). The availability and calculation of foreign tax credits and deductions for foreign taxes involve the application of complex rules and also vary depending upon a United States holder’s particular circumstances. United States holders are urged to consult their tax advisors regarding the availability of the foreign tax credit or a deduction under their particular circumstances.

Foreign Currency Senior Notes – Cash Basis Taxpayers. If a United States holder uses the cash receipts and disbursements method of accounting for tax purposes and receives an interest payment that is denominated in, or determined by reference to, a foreign currency, such United States holder must recognize income equal to the U.S.

dollar value of the interest payment, based on the exchange rate in effect on the date of receipt, regardless of whether the United States holder actually converts the payment into U.S. dollars.

Foreign Currency Senior Notes – Accrual Basis Taxpayers. If a United States holder uses an accrual method of accounting for tax purposes, such United States holder may determine the amount of income that it recognizes with respect to an interest payment denominated in, or determined by reference to, a foreign currency by using one of two methods. Under the first method, such United States holder will determine the amount of income accrued based on the average exchange rate in effect during the interest accrual period or, with respect to an accrual period that spans two taxable years, that part of the period within the taxable year.

If such United States holder elects the second method, it would determine the amount of income accrued on the basis of the exchange rate in effect on the last day of the accrual period, or, in the case of an accrual period that spans two taxable years, the exchange rate in effect on the last day of the part of the period within the taxable year. Additionally, under this second method, if the United States holder receives a payment of interest within five business days of the last day of its accrual period, it may instead translate the interest accrued into U.S. dollars at the exchange rate in effect on the day that it actually receives the interest payment. If such United States holder elects the second method, that method will apply to all debt instruments that such United States holder holds at the beginning of the first taxable year to which the election applies and to all debt instruments that such United States holder subsequently acquires. A United States holder may not revoke this election without the consent of the U.S. Internal Revenue Service (the “**IRS**”).

When such United States holder actually receives an interest payment (including a payment attributable to accrued but unpaid interest upon the sale, exchange, redemption or other taxable disposition of its Senior Note) denominated in, or determined by reference to, a foreign currency for which such United States holder accrued an amount of income, such United States holder will recognize ordinary income or loss attributable to the difference, if any, between the exchange rate that such United States holder used to accrue interest income and the exchange rate in effect on the date of receipt, regardless of whether such United States holder actually converts the payment into U.S. dollars.

Original Issue Discount

General. If a United States holder owns a Senior Note, other than a short-term Senior Note with a term of one year or less, it will be treated as a discount Senior Note issued at an original issue discount if the amount by which the Senior Note’s stated redemption price at maturity exceeds its issue price is equal to or more than a *de minimis* amount. Generally, a Senior Note’s issue price will be the first price at which a substantial amount of Senior Notes included in the issue of which the Senior Note is a part is sold to persons other than bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents, or wholesalers. A Senior Note’s stated redemption price at maturity is the total of all payments provided by the Senior Note that are not payments of qualified stated interest. Generally, an interest payment on a Senior Note is qualified stated interest if it is one of a series of stated interest payments on a Senior Note that are unconditionally payable in cash or property (other than debt instruments issued by the Issuer) at least annually at a single fixed rate. There are special rules for variable rate Senior Notes that are discussed under “—Variable Rate Senior Notes.”

In general, a Senior Note is not a discount Senior Note if the amount by which its stated redemption price at maturity exceeds its issue price is less than the *de minimis* amount of $\frac{1}{4}$ of 1 percent of its stated redemption price at maturity multiplied by the number of complete years to its maturity. A Senior Note will have *de minimis* original issue discount if the amount of the excess is less than the *de minimis* amount. If a Senior Note has *de minimis* original issue discount, such United States holder must include the *de minimis* amount in income (as capital gain) as stated principal payments are made on the Senior Note, unless such United States holder makes the election described below under “—Election to Treat All Interest as Original Issue Discount.” A United States holder can determine the includible amount with respect to each such payment by multiplying the total amount of a Senior Note’s *de minimis* original issue discount by a fraction equal to:

- the amount of the principal payment made
- divided by:*
- the stated principal amount of such Senior Note.

Generally, if the United States holder’s discount Senior Note matures more than one year from its date of issue, the United States holder must include original issue discount (“**OID**”) in income (as ordinary income) before it

receives cash attributable to that income, regardless of the United States holder's method of accounting for tax purposes. The amount of OID that a United States holder must include in income is calculated using a constant-yield method, and generally a United States holder will include increasingly greater amounts of OID in income over the life of its Senior Notes. More specifically, a United States holder can calculate the amount of OID that it must include in income by adding the daily portions of OID with respect to its discount Senior Note for each day during the taxable year or portion of the taxable year that it holds its discount Senior Note. A United States holder can determine the daily portion by allocating to each day in any accrual period a pro rata portion of the OID allocable to that accrual period. A United States holder may select an accrual period of any length with respect to its discount Senior Note and such United States holder may vary the length of each accrual period over the term of its discount Senior Note. However, no accrual period may be longer than one year and each scheduled payment of interest or principal on the discount Senior Note must occur on either the first or final day of an accrual period.

A United States holder can determine the amount of OID allocable to an accrual period by:

- multiplying its discount Senior Note's adjusted issue price at the beginning of the accrual period by such Senior Note's yield to maturity, and then
- subtracting from this figure the sum of the payments of qualified stated interest on such Senior Note allocable to the accrual period.

A United States holder must determine the discount Senior Note's yield to maturity (*i.e.*, the discount rate that causes the present value of all payments on the Senior Note as of its original issue date to equal its issue price) on the basis of compounding at the close of each accrual period and adjusting for the length of each accrual period. Further, a United States holder determines the discount Senior Note's adjusted issue price at the beginning of any accrual period by:

- adding the discount Senior Note's issue price and any accrued OID for each prior accrual period (determined without regard to the amortization of any acquisition premium or amortizable bond premium, each as described below), and then
- subtracting any payments previously made on such discount Senior Note that were not qualified stated interest payments.

If an interval between payments of qualified stated interest on a discount Senior Note contains more than one accrual period, then, when a United States holder determines the amount of OID allocable to an accrual period, it must allocate the amount of qualified stated interest payable at the end of the interval, including any qualified stated interest that is payable on the first day of the accrual period immediately following the interval, *pro rata* to each accrual period in the interval based on their relative lengths. In addition, a United States holder must increase the adjusted issue price at the beginning of each accrual period in the interval by the amount of any qualified stated interest that has accrued prior to the first day of the accrual period but that is not payable until the end of the interval. A United States holder may compute the amount of OID allocable to an initial short accrual period by using any reasonable method if all other accrual periods, other than a final short accrual period, are of equal length.

The amount of OID allocable to the final accrual period is equal to the difference between:

- the amount payable at the maturity of a Senior Note, other than any payment of qualified stated interest, and
- the Senior Note's adjusted issue price as of the beginning of the final accrual period.

Acquisition Premium. If a United States holder purchases a discount Senior Note for an amount that is less than or equal to the sum of all amounts, other than qualified stated interest, payable on such Senior Note after the purchase date but is greater than the amount of such Senior Note's adjusted issue price, as determined above under "—General," the excess is acquisition premium. If a United States holder does not make the election described below under "—Election to Treat All Interest as Original Issue Discount," then it must reduce the daily portions of OID by a fraction equal to:

- the excess of the adjusted basis in the Senior Note immediately after purchase over the adjusted issue price of the Senior Note

divided by:

- the excess of the sum of all amounts payable, other than qualified stated interest, on the Senior Note after the purchase date over the Senior Note's adjusted issue price.

Pre-Issuance Accrued Interest. An election may be made to decrease the issue price of a Senior Note by the amount of interest that has accrued prior to the issue date ("**pre-issuance accrued interest**") if:

- a portion of the initial purchase price of such Senior Note is attributable to pre-issuance accrued interest,
- the first stated interest payment on such Senior Note is to be made within one year of such Senior Note's issue date, and
- the payment will equal or exceed the amount of pre-issuance accrued interest.

If this election is made, a portion of the first stated interest payment will be treated as a return of the excluded pre-issuance accrued interest and not as an amount payable on such Senior Note.

Senior Notes Subject to Contingencies Including Optional Redemption. A Senior Note is subject to a contingency if it provides for an alternative payment schedule or schedules applicable upon the occurrence of a contingency or contingencies, other than a remote or incidental contingency, whether such contingency relates to payments of interest or of principal. In such a case, a United States holder must determine the yield and maturity of such Senior Note by assuming that the payments will be made according to the payment schedule most likely to occur if:

- the timing and amounts of the payments that comprise each payment schedule are known as of the issue date of such Senior Note, and
- one of such schedules is significantly more likely than not to occur.

If there is no single payment schedule that is significantly more likely than not to occur, a United States holder must generally include income on a Senior Note in accordance with the general rules that govern contingent payment debt instruments. These rules will be discussed in the applicable Pricing Supplement.

Notwithstanding the general rules for determining yield and maturity, if a Senior Note is subject to contingencies, the timing and amounts of the payments that comprise each payment schedule are known as of the issue date of such Senior Note, and either a United States holder or we have an unconditional option or options that, if exercised, would require payments to be made on such Senior Note under an alternative payment schedule or schedules, then:

- in the case of an option or options that we may exercise, we would be deemed to exercise or not exercise an option or combination of options in the manner that minimizes the yield on such Senior Note, and
- in the case of an option or options that a United States holder may exercise, it will be deemed to exercise or not exercise an option or combination of options in the manner that maximizes the yield on such Senior Note.

If both a United States holder and we hold options described in the preceding sentence, those rules would apply to each option in the order in which they may be exercised.

If a contingency, including the exercise of an option, actually occurs or does not occur contrary to an assumption made according to the above rules, then, except to the extent that a portion of a Senior Note is repaid as a result of this change in circumstances and solely to determine the amount and accrual of OID, a United States holder must redetermine the yield and maturity of such Senior Note by treating such Senior Note as having been retired and reissued on the date of the change in circumstances for an amount equal to such Senior Note's adjusted issue price on that date.

Election to Treat All Interest as Original Issue Discount. A United States holder may elect to include in gross income all interest that accrues on a Senior Note held by it using the constant-yield method described above under "—General," with the modifications described below. For purposes of this election, interest will include stated interest, acquisition discount, OID, *de minimis* original issue discount, market discount, *de minimis* market discount and unstated interest, as adjusted by any amortizable bond premium, described below under "—Senior Notes Purchased at a Premium," or acquisition premium.

If a United States holder makes this election for a Senior Note held by it, then, when such United States holder applies the constant-yield method:

- the issue price of such Senior Note will equal the United States holder's cost,
- the issue date of such Senior Note will be the date the United States holder acquired it, and
- no payments on such Senior Note will be treated as payments of qualified stated interest.

Generally, this election will apply only to the Senior Note for which it is made; however, if a Senior Note has amortizable bond premium, the United States holder will be deemed to have made an election to apply amortizable bond premium against interest for all debt instruments with amortizable bond premium, other than debt instruments the interest on which is excludable from gross income, that are held by such United States holder as of the beginning of the taxable year to which the election applies or any taxable year thereafter. Additionally, if a United States holder makes this election for a market discount Senior Note, the United States holder will be treated as having made the election discussed below under “—Market Discount” to include market discount in income currently over the life of all debt instruments having market discount that it acquires on or after the first day of the first taxable year to which the election applies. A United States holder may not revoke any election to apply the constant-yield method to all interest on a Senior Note or the deemed elections with respect to amortizable bond premium or market discount Senior Notes without the consent of the IRS.

Variable Rate Senior Notes. A Senior Note will be a variable rate Senior Note if:

- such Senior Note's issue price does not exceed the total non-contingent principal payments by more than the lesser of:
 1. .015 multiplied by the product of the total non-contingent principal payments and the number of complete years to maturity from the issue date, or
 2. 15 percent of the total non-contingent principal payments; and
- such Senior Note provides for stated interest, compounded or paid at least annually, only at:
 1. one or more qualified floating rates,
 2. a single fixed rate and one or more qualified floating rates,
 3. a single objective rate, or
 4. a single fixed rate and a single objective rate that is a qualified inverse floating rate; and
- the value of any variable rate on any date during the term of the Senior Note is set no earlier than three months prior to the first day on which that value is in effect and no later than one year following that first day.

A Senior Note will have a variable rate that is a qualified floating rate if:

- variations in the value of the rate can reasonably be expected to measure contemporaneous variations in the cost of newly borrowed funds in the currency in which such Senior Note is denominated; or
- the rate is equal to such a rate either:
 1. multiplied by a fixed multiple that is greater than 0.65 but not more than 1.35, or
 2. multiplied by a fixed multiple greater than 0.65 but not more than 1.35, and then increased or decreased by a fixed rate.

If such Senior Note provides for two or more qualified floating rates that are within 0.25 percentage points of each other on the issue date or can reasonably be expected to have approximately the same values throughout the term of such Senior Note, the qualified floating rates together constitute a single qualified floating rate.

A Senior Note will not have a qualified floating rate, however, if the rate is subject to certain restrictions (including caps, floors, governors, or other similar restrictions) unless such restrictions are caps, floors or governors that are fixed throughout the term of such Senior Note or such restrictions are not reasonably expected to significantly affect the yield on such Senior Note.

A Senior Note will have a variable rate that is a single objective rate if:

- the rate is not a qualified floating rate, and
- the rate is determined using a single, fixed formula that is based on objective financial or economic information that is not within the control of or unique to the circumstances of the issuer or a related party.

A Senior Note will not have a variable rate that is an objective rate, however, if it is reasonably expected that the average value of the rate during the first half of such Senior Note's term would be either significantly less than or significantly greater than the average value of the rate during the final half of such Senior Note's term.

An objective rate as described above is a qualified inverse floating rate if:

- the rate is equal to a fixed rate minus a qualified floating rate, and
- the variations in the rate can reasonably be expected to inversely reflect contemporaneous variations in the qualified floating rate, disregarding any restrictions on the rate that are caps, floors or governors that are fixed throughout the term of the Senior Note or that are not reasonably expected to significantly affect the yield on such Senior Note.

A Senior Note will also have a single qualified floating rate or an objective rate if interest on such Senior Note is stated at a fixed rate for an initial period of one year or less followed by either a qualified floating rate or an objective rate for a subsequent period, and either:

- the fixed rate and the qualified floating rate or objective rate have values on the issue date of such Senior Note that do not differ by more than 0.25 percentage points, or
- the value of the qualified floating rate or objective rate on the issue date is intended to approximate the fixed rate.

In general, if a variable rate Senior Note provides for stated interest at a single qualified floating rate or objective rate, or one of those rates after a single fixed rate for an initial period of one year or less (as described above), all stated interest on such Senior Note is qualified stated interest. In this case, the amount of OID, if any, is determined by using, in the case of a qualified floating rate or qualified inverse floating rate, the value as of the issue date of the qualified floating rate or qualified inverse floating rate, or, for any other objective rate, a fixed rate that reflects the yield reasonably expected for such Senior Note.

If a variable rate Senior Note does not provide for stated interest at a single qualified floating rate or a single objective rate, and also does not provide for interest payable at a fixed rate other than a single fixed rate for an initial period of one year or less (as described above), a United States holder generally would determine the interest and OID accruals on such Senior Note by:

- determining a fixed rate substitute for each variable rate provided under such variable rate Senior Note,
- constructing the equivalent fixed rate debt instrument, using the fixed rate substitute described above,
- determining the amount of qualified stated interest and OID with respect to the equivalent fixed rate debt instrument, and
- adjusting for actual variable rates during the applicable accrual period.

When a United States holder determines the fixed rate substitute for each variable rate provided under a variable rate Senior Note, it generally will use the value of each variable rate as of the issue date of such Senior Note or, for an objective rate that is not a qualified inverse floating rate, a rate that reflects the reasonably expected yield on such Senior Note.

If a variable rate Senior Note provides for stated interest either at one or more qualified floating rates or at a qualified inverse floating rate, and also provides for stated interest at a single fixed rate other than at a single fixed rate for an initial period of one year or less (as described above), a United States holder generally would determine interest and OID accruals by using the method described in the previous paragraph. However, a variable rate Senior Note will be treated, for purposes of the first three steps of the determination, as if such Senior Note had provided for a qualified floating rate, or a qualified inverse floating rate, rather than the fixed rate. The qualified floating rate, or qualified inverse floating rate, that replaces the fixed rate must be such that the fair market value of such variable rate

Senior Note as of the issue date approximates the fair market value of an otherwise identical debt instrument that provides for the qualified floating rate, or qualified inverse floating rate, rather than the fixed rate.

Short-Term Senior Notes. In general, if a United States holder is an individual or other cash basis United States holder of a Senior Note with a term of one year or less, or a short-term Senior Note, it is not required to accrue OID, as specially defined below for the purposes of this paragraph, for United States federal income tax purposes unless it elects to do so (although it is possible that it may be required to include any stated interest in income as it receives it). If a United States holder is an accrual basis taxpayer, a taxpayer in one of certain special classes or a cash basis taxpayer who so elects, it will be required to accrue OID on short-term Senior Notes on either a straight-line basis or under the constant-yield method, based on daily compounding. If a United States holder is not required and does not elect to include OID in income currently, any gain it realizes on the sale, exchange, redemption or other taxable disposition of its short-term Senior Note will be ordinary income to the extent of the accrued OID, which will be determined on a straight-line basis unless it makes an election to accrue the OID under the constant-yield method, through the date of the sale, exchange, redemption or other taxable disposition. In addition, if it is not required and does not elect to accrue OID on its short-term Senior Notes, it will generally be required to defer deductions for interest on borrowings allocable to its short-term Senior Notes in an amount not exceeding the deferred income until the deferred income is realized.

When a United States holder determines the amount of OID subject to these rules, it must include all interest payments on its short-term Senior Note, including stated interest, in the short-term Senior Note's stated redemption price at maturity. In addition, a United States holder may elect to determine the amount of OID subject to these rules by using its tax basis in the short-term Senior Note rather than the short-term Senior Note's issue price.

Foreign Currency Discount Senior Notes. If a discount Senior Note is denominated in, or determined by reference to, a foreign currency, the relevant United States holder must determine OID for any accrual period on its discount Senior Note in the foreign currency and then translate the amount of OID into U.S. dollars in the same manner as stated interest accrued by an accrual basis United States holder, as described under "—Payments of Interest." When such United States holder receives an amount attributable to OID in connection with a payment of interest or the sale, exchange, redemption or other taxable disposition of such Senior Note, such United States holder may recognize ordinary income or loss attributable to changes in exchange rates between the time of the accrual of the OID and the time of receipt of such amount.

Market Discount

A United States holder will be treated as if it purchased a Senior Note, other than a short-term Senior Note, at a market discount, and such Senior Note will be a market discount Senior Note, if the difference between such Senior Note's stated redemption price at maturity or, in the case of a discount Senior Note, its revised issue price, and the price such United States holder paid for it is equal to or greater than $\frac{1}{4}$ of 1 percent of its stated redemption price at maturity multiplied by the number of complete years to the Senior Note's maturity. To determine the revised issue price of such Senior Note for these purposes, a United States holder will generally add such Senior Note's issue price and any OID that has accrued on such Senior Note by prior holders (without regard to any acquisition premium).

If a Senior Note's stated redemption price at maturity or, in the case of a discount Senior Note, its revised issue price, exceeds the price the relevant United States holder paid for it by less than $\frac{1}{4}$ of 1 percent of the Senior Note's stated redemption price at maturity multiplied by the number of complete years to such Senior Note's maturity, the excess constitutes *de minimis* market discount, and the rules discussed below are not applicable to the relevant United States holder.

A United States holder must treat any gain it recognizes on the maturity or disposition of a market discount Senior Note, or any partial principal payment on a market discount Senior Note, as ordinary income to the extent of the accrued market discount on such Senior Note. Alternatively, such United States holder may elect to include market discount in income currently over the life of such Senior Note. If a United States holder makes this election, it would apply to all debt instruments with market discount that the United States holder acquires on or after the first day of the first taxable year to which the election applies. A United States holder may not revoke this election without the consent of the IRS. If a United States holder owns a market discount Senior Note and does not make this election, it will generally be required to defer deductions for interest on borrowings allocable to such Senior Note in an amount not exceeding the accrued market discount on such Senior Note until the maturity or disposition of such Senior Note. In certain cases, however, a United States holder may elect to deduct such interest prior to the maturity or disposition of such Senior Note.

If a United States holder owns a market discount Senior Note, the market discount would accrue on a straight-line basis unless an election is made to accrue market discount using a constant-yield method. If such United States holder makes this election, it would apply only to the Senior Note with respect to which it is made and such United States holder may not revoke it. A United States holder would, however, not include accrued market discount in income unless it elects to do so as described above.

If a market discount Senior Note is denominated in, or determined by reference to, a foreign currency and a United States holder elects to include market discount in income on a current basis, the market discount accruals will be determined in the foreign currency and then translated into U.S. dollars at the average exchange rate for the accrual period. In such case, when such United States holder receives an amount attributable to accrued market discount in connection with the sale, exchange, redemption or other taxable disposition of such market discount Senior Note, such United States holder may recognize ordinary income or loss attributable to changes in exchange rates between the time of the accrual of the market discount and the time of such sale, exchange, redemption or other taxable disposition.

Senior Notes Purchased at a Premium

If a United States holder purchases a Senior Note for an amount in excess of the sum of all amounts payable on the Senior Note after the acquisition date (other than payments of qualified stated interest), it may elect to treat the excess as amortizable bond premium. If it makes this election, it will reduce the amount required to be included in its income each accrual period with respect to interest on such Senior Note by the amount of amortizable bond premium allocable to that accrual period, based on such Senior Note's yield to maturity. In addition, if a United States holder acquires a discount Senior Note at a premium as described above, such United States holder will not be required to include any OID in income with respect to the discount Senior Note.

If the amortizable bond premium allocable to an accrual period exceeds a United States holder's interest income from a Senior Note for such accrual period, such excess is first allowed as a deduction to the extent of interest included in the United States holder's income in respect of the Senior Note in previous accrual periods (after taking into account any bond premium deductions in such accrual periods) and is then carried forward to the United States holder's next accrual period. If the amortizable bond premium allocable and carried forward to the accrual period in which the United States holder's Senior Note is sold, exchanged, redeemed or otherwise disposed of exceeds the United States holder's interest income for such accrual period, such United States holder would be allowed an ordinary deduction equal to such excess.

If a Senior Note is denominated in, or determined by reference to, a foreign currency, the relevant United States holder will compute its amortizable bond premium in units of the foreign currency and its amortizable bond premium would reduce its interest income in units of the foreign currency. Gain or loss that is attributable to changes in exchange rates between the time the relevant United States holder's amortized bond premium offsets interest income and the time of the acquisition of such Senior Note is generally taxable as ordinary income or loss.

If a United States holder makes an election to amortize bond premium, it would apply to all debt instruments, other than debt instruments the interest on which is excludable from gross income, that such United States holder holds at the beginning of the first taxable year to which the election applies or that such United States holder thereafter acquires, and such United States holder may not revoke it without the consent of the IRS. See also "—Original Issue Discount—Election to Treat All Interest as Original Issue Discount."

Purchase, Sale and Disposition of the Senior Notes

A United States holder's tax basis in a Senior Note will generally be the U.S. dollar cost, as described below, of such Senior Note, adjusted by:

- adding any OID or market discount previously included in income with respect to such Senior Note, and then
- subtracting any payments on such Senior Note that are not qualified stated interest payments and any amortizable bond premium to the extent that such premium either reduced interest income on such Senior Note or gave rise to a deduction on such Senior Note.

If a United States holder purchases a Senior Note with foreign currency, the U.S. dollar cost of such Senior Note will generally be the U.S. dollar value of the purchase price on the date of purchase. However, if a United States holder is a cash basis taxpayer, or an accrual basis taxpayer if it so elects, and the Senior Note it purchases is traded on an established securities market, within the meaning of the applicable Treasury regulations, the U.S. dollar cost of such

Senior Note will be the U.S. dollar value of the purchase price on the settlement date in respect of the Senior Note purchased.

A United States holder will generally recognize gain or loss on the sale, exchange, redemption or other taxable disposition of a Senior Note equal to the difference between the amount it realizes on the sale, exchange, redemption or other taxable disposition, excluding any amounts attributable to accrued but unpaid qualified stated interest (which will be treated as interest payments), and its tax basis in such Senior Note. If such Senior Note is sold, exchanged, redeemed or otherwise disposed of for an amount in foreign currency, the amount the relevant United States holder realizes will be the U.S. dollar value of such amount on the date of the sale, exchange, redemption or other taxable disposition, except that in the case of a Senior Note that is traded on an established securities market, within the meaning of the applicable Treasury regulations, a cash basis taxpayer, or an accrual basis taxpayer that so elects, will determine the amount realized based on the U.S. dollar value of the foreign currency on the settlement date of the sale, exchange, redemption or other taxable disposition.

A United States holder will recognize capital gain or loss on the sale, exchange, redemption or other taxable disposition of a Senior Note held by it, except to the extent:

- described above under “—Original Issue Discount—Short-Term Senior Notes” or “—Market Discount,” or
- attributable to changes in exchange rates as described below.

Any capital gain or loss will be long-term if the Senior Note has been held for more than one year at the time of such sale, exchange, redemption or other taxable disposition. Certain non-corporate United States holders (including individuals) may be eligible for preferential rates of taxation on long-term capital gains. The deductibility of capital losses is subject to limitations. Any gain or loss recognized will generally be treated as income from United States sources for purposes of determining the foreign tax credit allowable to a United States holder (except to the extent that a United States holder establishes the right to treat gain as foreign source income under the tax treaty between the United States and Mexico). Consequently, a United States holder may not be able to claim a foreign tax credit for any Mexican tax imposed upon the sale, exchange, redemption or other taxable disposition of a Senior Note unless such credit can be applied (subject to applicable limitations) against tax due on other income treated as derived from foreign sources. However, pursuant to the Foreign Tax Credit Regulations, unless a United States holder is eligible for and elects the benefits of the tax treaty between the United States and Mexico, any Mexican income tax would generally not be a foreign income tax eligible for a foreign tax credit (regardless of any other income that a United States holder may have that is derived from foreign sources). In such case, however, the non-creditable Mexican income tax would generally reduce the amount realized on the sale, exchange, redemption or other taxable disposition of the Senior Note. United States holders are urged to consult their tax advisors regarding the availability of the foreign tax credit under their particular circumstances.

If a Senior Note is denominated in, or determined by reference to, a foreign currency, a United States holder must treat any portion of the gain or loss that it recognizes on the sale, exchange, redemption or other taxable disposition of such Senior Note as ordinary income or loss to the extent attributable to changes in exchange rates between the time of the acquisition of such Senior Note and the time of such sale, exchange, redemption or other taxable disposition. However, a United States holder takes exchange gain or loss into account only to the extent of the total gain or loss it realizes on the transaction.

Senior Notes Subject to Special Rules

The applicable Pricing Supplement will discuss any special United States federal income tax rules with respect to Senior Notes that are Fixed Reset Notes, Indexed Notes, Extendible Notes, Amortizing Notes or Dual Currency Notes, or that are otherwise subject to the special rules that govern contingent payment debt instruments.

Treasury Regulations Requiring Disclosure of Reportable Transactions

Treasury regulations require United States taxpayers to report certain transactions that give rise to a loss in excess of certain thresholds (a “**Reportable Transaction**”). Under these regulations, if the Senior Notes are denominated in, or determined by reference to, a foreign currency, a United States holder (or a Non-United States holder (as defined below) that holds the Senior Notes in connection with a U.S. trade or business) that recognizes a loss with respect to the Senior Notes that is characterized as an ordinary loss due to changes in currency exchange rates (under any of the rules discussed above) would be required to report the loss on IRS Form 8886 (Reportable Transaction Disclosure Statement) if the loss meets or exceeds the thresholds set forth in the regulations. For

individuals and trusts, this loss threshold is U.S.\$50,000 in any single taxable year. For other types of taxpayers and other types of losses, the thresholds are higher. A prospective purchaser should consult with its own tax advisor regarding any tax filing and reporting obligations that may apply in connection with acquiring, owning and disposing of the Senior Notes.

Subordinated Notes

Characterization of the Subordinated Notes

No statutory, judicial or administrative authority directly addresses the characterization of the Subordinated Notes or instruments similar to the Subordinated Notes for United States federal income tax purposes (specifically, debt instruments with a write-down feature). As a result, significant aspects of the United States federal income tax consequences of an investment in the Subordinated Notes are uncertain. However, we intend, absent a change in law, to treat the Subordinated Notes as our equity (rather than debt) for United States federal income tax purposes. In general, under the Code, the characterization of an instrument for United States federal income tax purposes as debt or equity of a corporation by its issuer as of the time of issuance is binding on an owner of the instrument unless the owner discloses on its tax return that it is taking an inconsistent position. The issuer's characterization, however, is not binding on the IRS.

Except as stated below under “—Possible Alternative Treatment of the Subordinated Notes,” the following discussion assumes that the Subordinated Notes will be treated as our equity for United States federal income tax purposes. Treatment of the Subordinated Notes as debt for United States federal income tax purposes may significantly change the tax treatment of the Subordinated Notes in ways that are potentially adverse to holders.

Tax Treatment of Payments on the Subordinated Notes

Subject to the discussion below under “—PFIC Rules,” payments of stated interest on the Subordinated Notes, including any tax withheld from such interest and any related additional amounts, will be treated as distributions on our stock and as dividends to the extent paid out of our current or accumulated earnings and profits, as determined under United States federal income tax principles. Because we do not expect to maintain calculations of our earnings and profits under United States federal income tax principles, it is expected that distributions paid to a United States holder generally will be reported as dividends.

Subject to the discussion below under “—PFIC Rules,” dividends received by a non-corporate United States holder may be qualified dividend income taxable at the preferential rates applicable to long-term capital gains; *provided* such holder holds the Subordinated Notes for more than 60 days during the 121-day period beginning 60 days before the ex-dividend date, in this case generally the relevant record date in respect of the applicable interest payment date (or, if the dividend is attributable to a period or periods aggregating over 366 days; *provided* such holder holds the Subordinated Notes for more than 90 days during the 181-day period beginning 90 days before the ex-dividend date), and meets other holding period requirements. In addition, we (i) must be eligible for the benefits of a comprehensive tax treaty with the United States that the U.S. Treasury determines is satisfactory and that includes an exchange of information program and (ii) must not have been in the year prior to the year in which the dividend was paid, and not be, in the year in which the dividend is paid, a passive foreign investment company (“**PFIC**”) as discussed below. You should consult your tax advisor regarding the availability of the reduced dividend tax rate in light of your particular circumstances.

There is some uncertainty as to the application of the qualified dividend rules to instruments that are treated as equity for United States federal income tax purposes but that grant holders the legal rights of debt holders. You should consult your tax advisor regarding your holding period in the Subordinated Notes in light of your rights under the Subordinated Notes. Amounts we pay with respect to the Subordinated Notes will not be eligible for the dividends-received deduction generally allowed to United States corporations in respect of dividends received from other United States corporations.

Dividends that exceed certain thresholds in relation to a United States holder's tax basis in the Subordinated Notes could be characterized as “extraordinary dividends” under the Code. A non-corporate United States holder will be required to treat any loss on the sale or other taxable disposition of the Subordinated Notes as a long-term capital loss (regardless of its holding period) to the extent of any extraordinary dividends such United States holder receives that are treated as qualified dividend income.

If a payment on a Subordinated Note that is treated as a dividend is made in a foreign currency, the dividend income recognized by a United States holder will equal the U.S. dollar value of the payment, based on the exchange

rate in effect on the date of receipt, regardless of whether the United States holder actually converts the payment into U.S. dollars.

Dividends that are paid on the Subordinated Notes will generally be treated as income from sources outside the United States for purposes of determining the foreign tax credit allowable to a United States holder. Such amounts will generally be “passive” income for purposes of computing the foreign tax credit. A United States holder may, subject to generally applicable limitations and conditions (including a minimum holding period requirement), be entitled to a foreign tax credit for any Mexican withholding tax imposed on dividends that are paid on the Subordinated Notes. However, the Foreign Tax Credit Regulations impose additional requirements for foreign taxes to be eligible for a foreign tax credit, and there can be no assurance that those requirements will be satisfied. Instead of claiming a foreign tax credit, a United States holder may be able to deduct any Mexican withholding tax imposed on dividends that are paid on the Subordinated Notes, subject to generally applicable limitations under U.S. law (including that a United States holder is not eligible for a deduction for otherwise creditable foreign income taxes paid or accrued in a taxable year if such United States holder claims a foreign tax credit for any foreign income taxes paid or accrued in the same taxable year). The availability and calculation of foreign tax credits and deductions for foreign taxes involve the application of complex rules and also vary depending upon a United States holder’s particular circumstances. United States holders are urged to consult their tax advisors regarding the availability of the foreign tax credit or a deduction under their particular circumstances.

Sale, Exchange, Redemption or Write-Down of the Subordinated Notes

Subject to the discussion below under “—PFIC Rules,” a United States holder will generally recognize capital gain or loss upon the sale, exchange, redemption or other taxable disposition of Subordinated Notes in an amount equal to the difference between the amount realized on such disposition and the holder’s tax basis in the Subordinated Notes, both determined in U.S. dollars. Any capital gain or loss will be long-term if the Subordinated Notes have been held for more than one year at the time of such sale, exchange, redemption or other taxable disposition. Certain non-corporate United States holders (including individuals) may be eligible for preferential rates of taxation on long-term capital gains. The deductibility of capital losses is subject to limitations. Any gain or loss recognized will generally be treated as income from United States sources for purposes of determining the foreign tax credit allowable to a United States holder (except to the extent that a United States holder establishes the right to treat gain as foreign source income under the tax treaty between the United States and Mexico). Consequently, a United States holder may not be able to claim a foreign tax credit for any Mexican tax imposed upon the sale, exchange, redemption or other taxable disposition of a Subordinated Note unless such credit can be applied (subject to applicable limitations) against tax due on other income treated as derived from foreign sources. However, pursuant to the Foreign Tax Credit Regulations, unless a United States holder is eligible for and elects the benefits of the tax treaty between the United States and Mexico, any Mexican income tax would generally not be a foreign income tax eligible for a foreign tax credit (regardless of any other income that a United States holder may have that is derived from foreign sources). In such case, however, the non-creditable Mexican income tax would generally reduce the amount realized on the sale, exchange, redemption or other taxable disposition of the Subordinated Note. United States holders are urged to consult their tax advisors regarding the availability of the foreign tax credit under their particular circumstances.

A full Write-Down of a Subordinated Note generally will be treated as a taxable disposition of such Subordinated Note for United States federal income tax purposes. It is unclear how a partial Write-Down of a Subordinated Note should be treated for United States federal income tax purposes, and prospective investors should consult their tax advisors regarding the United States federal income tax consequences of a partial Write-Down.

PFIC Rules

Special United States federal income tax rules would apply to holders of the Subordinated Notes if we were classified as a PFIC. We will be classified as a PFIC in any taxable year in which, after taking into account our income and gross assets (and the income and assets of our subsidiaries pursuant to applicable “look-through” rules), either (i) 75% or more of our gross income consists of certain types of “passive income” or (ii) 50% or more of the average quarterly value of our assets is attributable to “passive assets” (assets that produce or are held for the production of passive income). If a company is considered to be an active bank for purposes of the PFIC rules, its “banking income” is treated as active income even if it would otherwise be classified as passive income. Based on our audited consolidated financial statements for the year ended December 31, 2022, we believe that we were not a PFIC for United States federal income tax purposes in 2022, and we do not expect to be a PFIC in the foreseeable future. However, this conclusion is a factual determination that is made annually and thus may be subject to change. It is therefore possible that we could become a PFIC in a future taxable year.

If we were to become a PFIC, a United States holder that does not make a “mark-to-market” election may incur significantly increased United States federal income tax on gain recognized on the sale or other disposition of the Subordinated Notes and on the receipt of payments on the Subordinated Notes to the extent such payments are treated as “excess distributions” under the United States federal income tax rules. In addition, payments on the Subordinated Notes would not be eligible for treatment as qualified dividend income, a United States holder of our Subordinated Notes would be subject to additional U.S. tax form filing requirements, and the statute of limitations for collections may be suspended for a United States holder that does not file the appropriate form.

Possible Alternative Treatment of the Subordinated Notes

As discussed above, significant aspects of the United States federal income tax consequences of an investment in the Subordinated Notes are uncertain. The IRS could assert that the Subordinated Notes should be characterized as debt for United States federal income tax purposes. If the Subordinated Notes were so treated, interest on the Subordinated Notes would be ordinary income and would not be eligible for the lower rate for “qualified dividend income” discussed above in “—Tax Treatment of Payments on the Subordinated Notes.” Moreover, in that event, the Subordinated Notes may be treated as contingent payment debt instruments, with the consequences, among others, that (i) United States holders would be required to accrue interest on the Subordinated Notes even if such holders otherwise use the cash method of accounting for United States federal income tax purposes, (ii) the amount of interest that must be accrued in any period may differ from the amount of stated interest accruing in that period, and (iii) gain from the sale, exchange, redemption or other taxable disposition of the Subordinated Notes would be ordinary income.

Prospective investors should consult their tax advisors as to the tax consequences to them if the Subordinated Notes were characterized as debt for United States federal income tax purposes.

Information with Respect to Foreign Financial Assets

A United States holder that owns “specified foreign financial assets” with an aggregate value in excess of U.S.\$50,000 on the last day of the taxable year or U.S.\$75,000 at any time during the taxable year (and in some circumstances, a higher threshold) may be required to file an information report with respect to such assets with its tax returns, currently on IRS Form 8938. “Specified foreign financial assets” may include financial accounts maintained by foreign financial institutions, as well as the following, but only if they are held for investment and not held in accounts maintained by financial institutions: (i) stocks and securities issued by non-United States persons, (ii) financial instruments and contracts that have non-United States issuers or counterparties, and (iii) interests in foreign entities. The understatement of income attributable to “specified foreign financial assets” in excess of U.S.\$5,000 extends the statute of limitations with respect to the tax return to six years after the return was filed. United States holders who fail to report the required information could be subject to substantial penalties. United States holders are urged to consult their tax advisors regarding the application of this reporting requirement to their ownership of the Notes.

Purchase, Receipt and Exchange of Foreign Currency

If a United States holder receives foreign currency as interest on a Note held by it or on the sale, exchange, redemption or other taxable disposition of a Note held by it, the tax basis of such United States holder in the foreign currency generally would equal the U.S. dollar value thereof on the date of receipt. If a United States holder purchases foreign currency, it generally would have a tax basis in the foreign currency equal to the U.S. dollar value thereof on the date of purchase. If a United States holder sells or disposes of foreign currency, including if it uses such foreign currency to purchase Notes or exchanges such foreign currency for U.S. dollars, any gain or loss recognized generally would be ordinary income or loss.

Non-United States Holders

This subsection describes the tax consequences to a Non-United States holder.

A person is a “**Non-United States holder**” if it is a beneficial owner of a Note and it is, for United States federal income tax purposes:

- a nonresident alien individual,
- a foreign corporation, or

- an estate or trust that in either case is not subject to United States federal income tax on a net income basis on income or gain from a Note.

This subsection does not apply to United States holders.

Under United States federal income tax law, and subject to the discussion of backup withholding and FATCA withholding below, if a person is a Non-United States holder of a Note, interest on such Note paid to such person is exempt from United States federal income tax, including withholding tax, whether or not such person is engaged in a trade or business in the United States, unless:

- such person is an insurance company carrying on a United States insurance business to which the interest is attributable, within the meaning of the Code, or
- such person both
 - has an office or other fixed place of business in the United States to which the interest is attributable; and
 - derives the interest in the active conduct of a banking, financing or similar business within the United States, or is a corporation with a principal business of trading in stocks and securities for its own account.

A Non-United States holder of a Note will generally not be subject to United States federal income tax on gain realized on the sale, exchange, redemption or other taxable disposition of such Note unless:

- the gain is effectively connected with such person's conduct of a trade or business in the United States; or
- such person is an individual, is present in the United States for 183 or more days during the taxable year in which the gain is realized and certain other conditions exist.

Non-United States holders should consult their tax advisors regarding any applicable income tax treaties that may provide for different rules.

FATCA Withholding

Certain non-U.S. financial institutions must comply with information reporting requirements or certification requirements in respect of their direct and indirect United States accountholders (which may include United States shareholders and/or United States noteholders) to avoid becoming subject to withholding on certain payments. The Issuer and other non-U.S. financial institutions may accordingly be required to report information to the IRS regarding the holders of Notes. The Issuer and other non-U.S. financial institutions may also be required to withhold on a portion of payments under the Notes to certain holders that fail to comply with the relevant information reporting requirements (or hold Notes directly or indirectly through certain noncompliant intermediaries). However, under proposed Treasury regulations (upon which taxpayers may rely until final regulations are issued), such withholding will not apply to payments made before the date that is two years after the date on which final regulations defining the term "foreign passthru payment" are published. Moreover, in the case of Senior Notes, such withholding would only apply to Notes issued at least six months after the date on which final regulations defining the term "foreign passthru payment" are published. Holders are urged to consult their own tax advisors and any banks or brokers through which they will hold Notes as to the consequences (if any) of these rules to them.

Backup Withholding and Information Reporting

If a holder is a non-corporate United States holder, information reporting requirements, on IRS Form 1099, generally would apply to payments of principal and interest on a Note (including interest treated as dividends with respect to a Subordinated Note) within the United States, and the payment of proceeds to the non-corporate United States holder from the sale of a Note effected at a United States office of a broker. Information reporting may also apply in respect of any OID that accrues on a Senior Note. Backup withholding may apply to any of the payments described above if a United States holder fails to provide a taxpayer identification number and a certification that it is not subject to backup withholding, or fails to report in full dividend and interest income.

In general, payment of the proceeds from the sale of Notes effected at a foreign office of a broker will not be subject to information reporting or backup withholding. However, a sale effected at a foreign office of a broker could be subject to information reporting in the same manner as a sale within the United States (and in certain cases may be

subject to backup withholding as well) if (i) the broker has certain connections to the United States, (ii) the proceeds or confirmation are sent to the United States or (iii) the sale has certain other specified connections with the United States.

A Non-United States holder generally will be exempt from information reporting and backup withholding with respect to the Notes if such holder properly certifies to its foreign status or otherwise establishes an exemption.

Backup withholding is not an additional tax and any amounts withheld under the backup withholding rules will be allowed as a refund or a credit against a holder's United States federal income tax liability provided the required information is timely furnished to the IRS.

Certain Mexican Income Tax Consequences

General

The following is a general summary of the principal Mexican federal income tax consequences of the purchase, ownership and disposition of Notes by a Non-Mexican Holder. For purposes of this summary, "Non-Mexican Holder" means a holder of the Notes that is not a resident of Mexico for tax purposes and that does not conduct a trade or business in Mexico through a permanent establishment for tax purposes in Mexico, to which income derived from the Notes is attributable. This summary does not purport to be a comprehensive description of all of the tax considerations that may be relevant to a decision to purchase, own or dispose of the Notes, is for general information purposes only and does not constitute tax advice, and does not address all the Mexican tax consequences that may be applicable to specific Non-Mexican Holders. In addition, this summary does not describe any tax consequences arising under the laws of any taxing jurisdiction other than Mexico, arising under the laws of any state or municipality within Mexico, or that are applicable to a resident of Mexico for tax purposes in connection with the purchase, ownership and disposition of the Notes. This summary is based upon the provisions set forth in the Mexican Income Tax Law (*Ley del Impuesto Sobre la Renta*) and the Mexican Federal Fiscal Code (*Código Fiscal de la Federación*) in effect as of the date hereof, which are subject to change or to new or different interpretations, which may have an impact on this description.

Mexico has entered into, and is negotiating several, tax treaties with various countries, that may affect this description and the Mexican withholding tax liability applicable to Non-Mexican Holders.

Prospective purchasers of the Notes should consult their own tax advisors as to the Mexican or other tax consequences, and the consequences under tax treaties to which Mexico is a party and are in effect, of the purchase, ownership and disposition of Notes, including, in particular, the effect of any foreign, state, municipal or local tax laws. For tax purposes, the acquisition, holding and disposition of the Notes by any investor, including any investor who is a resident of Mexico, will be made under its own responsibility.

For Mexican taxation purposes, an individual is a resident of Mexico for tax purposes if such individual has established his or her home in Mexico, unless such individual also has a home available to him/her in another country; in that case, the individual will be deemed a resident of Mexico for tax purposes when his or her "center of vital interests" (*centro de intereses vitales*) is located within the territory of Mexico. This will be deemed to occur if, among other considerations, (i) at least 50% of his or her aggregate annual income derives from Mexican sources, or (ii) the main center of his or her professional activities is located in Mexico.

Mexican nationals who file a change of tax residence to a country or jurisdiction that does not have a comprehensive exchange of information agreement with Mexico, in which his or her income is subject to a preferred tax regime pursuant to the provisions of the Mexican Income Tax Law, will be considered residents of Mexico for tax purposes during the year of filing of the notice of such residence change and during the following five years. Any Mexican nationals that are employed by the Mexican government are deemed residents of Mexico, even if their center of vital interests is located outside of Mexico.

Unless otherwise evidenced, Mexican nationals are deemed residents of Mexico for tax purposes. An individual will also be considered a resident of Mexico for tax purposes, if such individual is a Mexican federal government employee, regardless of the location of the individual's center of vital interests.

A legal entity (including foreign legal arrangements treated as legal entities for Mexican tax purposes) qualifies as a resident of Mexico for tax purposes if the principal administration of its business or its place of effective management is located in Mexico. If a legal entity (including foreign legal arrangements treated as legal entities for Mexican tax purposes) or an individual has a permanent establishment in Mexico for tax purposes, any and all income

attributable to that permanent establishment of such entity or individual would be subject to Mexican income tax pursuant to applicable law.

Taxation of Payments of Principal and Interest Under Notes Issued by Us Through the Texas Agency

Under the Mexican Income Tax Law, payments of principal and interest on the Notes (including any amounts paid in excess of the issue price for the Notes, which are deemed interest under the Mexican Income Tax Law) paid by us, through our Texas Agency, to a Non-Mexican Holder will not be subject to Mexican withholding or other similar taxes.

Taxation of Payments of Principal and Interest Under Notes Issued Directly by Us

Under the Mexican Income Tax Law, payments of interest (including original issue discount and premiums, which are deemed interest under the Mexican Income Tax Law) made by the Bank, acting directly and not through the Texas Agency, in respect of the Notes to a Non-Mexican Holder will generally be subject to a Mexican withholding tax assessed at a rate of 4.9%, if, as expected, (i) the Notes are placed outside Mexico, through banks or broker-dealers, in a country with which Mexico has a treaty for the avoidance of double taxation in effect, (ii) a notice is filed before the CNBV describing the main characteristics of the relevant offering of the Notes pursuant to Article 7 of the Mexican Securities Market Law, and (iii) the relevant disclosure requirements set forth from time to time by the Mexican Tax Administration Service (*Servicio de Administración Tributaria*, or the “SAT”) are complied with, including the requirement to timely file with the SAT, 15 days after the placement of the Notes, information regarding such placement, and on a quarterly basis, information setting forth, among other items, that no party related to us, jointly or individually, directly or indirectly, is the beneficial owner of more than 5% of the aggregate amount of each interest payment, and that we maintain records that evidence compliance with this requirement.

If any of the above requirements is not met, the withholding tax applicable to interest payments under the Notes made directly by the Bank to a Non-Mexican Holder will be imposed at a rate of 10% or higher. In addition, if the beneficiaries, whether acting directly or indirectly, severally or jointly with related parties, receiving more than 5% of the aggregate amount of each interest payment under the Notes are (i) persons holding more than 10% of our shares, directly or indirectly, severally or jointly with related parties, or (ii) corporations or other entities whose stock is more than 20% owned, directly or indirectly, jointly or severally, by persons related to us, the Mexican withholding tax will be applied at substantially higher rates (35% as of the date of this Offering Memorandum). For these purposes, persons will be related if (i) one person holds an interest in the business of the other person, (ii) both persons have common interests or (iii) a third party has an interest in the business or assets of both persons.

Payments of interest in respect of the Notes made directly by the Bank to a non-Mexican pension or retirement fund will be exempt from Mexican withholding tax; provided that (i) the applicable fund is organized pursuant to the laws of its country of residence and is the effective beneficiary of the interest payment, (ii) such income is exempt from income taxes in such fund’s country of residence and (iii) such fund provides the aforementioned information to the Bank, that the Bank may in turn provide to the SAT, in accordance with the rules issued by the SAT for these purposes.

Under the Mexican Income Tax Law, payments of principal made by the Bank, acting directly and not through the Texas Agency, in respect of the Notes to a Non-Mexican Holder will not be subject to Mexican withholding taxes.

Taxation of Capital Gains

As a general rule, under the Mexican Income Tax Law, gains resulting from the sale or disposition of the Notes by a Non-Mexican Holder to another Non-Mexican Holder are not subject to income or other tax in Mexico, regardless of whether the Notes are issued by the Issuer or the Bank. Gains resulting from the sale of the Notes issued by the Bank by a Non-Mexican Holder to a purchaser who is a Mexican resident for tax purposes or to a Non-Mexican Holder deemed to have a permanent establishment for tax purposes in Mexico will be deemed interest income and will be subject to withholding tax in Mexico, unless an applicable income tax treaty provides otherwise. The acquisition of the Notes issued by the Bank at a discount by a Non-Mexican Holder will be deemed interest income and subject to income tax in Mexico, if the seller is a Mexican resident for tax purposes or a foreign resident deemed to have a permanent establishment for tax purposes in Mexico; no such taxes will apply if the Notes acquired are issued by the Issuer.

Other Mexican Tax Considerations

A Non-Mexican Holder will not be liable for Mexican estate, gift, inheritance or similar taxes with respect to the acquisition, ownership or disposition of the Notes, nor will such Non-Mexican Holder be liable for any Mexican stamp, issue, registration or similar taxes.

The Proposed Financial Transactions Tax

In February 2013, the European Commission published a proposal (the “**Commission’s Proposal**”) for a Directive for a common financial transactions tax (“**FTT**”) in Austria, Belgium, Estonia, France, Germany, Greece, Italy, Portugal, Slovakia, Slovenia and Spain (the “**participating Member States**”). However, Estonia has since stated that it will not participate.

The Commission’s Proposal has very broad scope and could, if introduced in its current form, apply to certain dealings in the Notes (including secondary market transactions) in certain circumstances.

Under the Commission’s Proposal, the FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in the Notes where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, “established” in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State. The FTT proposal remains subject to negotiation between participating Member States. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional EU member states may decide to participate and/or certain of the participating Member States may decide to withdraw.

Prospective holders of the Notes are advised to seek their own professional advice in relation to the FTT.

CERTAIN ERISA CONSIDERATIONS

A fiduciary of a “Benefit Plan Investor” (as defined below) should consider the fiduciary standards of the U.S. Employee Retirement Income Security Act of 1974 as amended (“**ERISA**”) in the context of the Benefit Plan Investor’s particular circumstances before authorizing an investment in the Notes. Accordingly, among other factors, the fiduciary should consider whether the investment would satisfy the prudence and diversification requirements of ERISA and would be consistent with the documents and instruments governing the Benefit Plan Investor, and whether the investment would involve a prohibited transaction under Section 406 of ERISA or Section 4975 of the U.S. Internal Revenue Code of 1986, as amended (the “**Code**”).

Prohibited Transaction Rules

Section 406 of ERISA and Section 4975 of the Code impose restrictions on (i) “employee benefit plans” (as defined in Section 3(3) of ERISA), subject to the provisions of part 4 of subtitle B of Title I of ERISA, (ii) “plans” within the meaning of Section 4975(e)(1) of the Code, to which the prohibited transaction provisions of Section 4975 of the Code apply; and (iii) entities whose underlying assets include “plan assets” by reason of such an employee benefit plan’s and/or plan’s investment in such entity pursuant to the U.S. Department of Labor regulation codified at 29 C.F.R. 2510.3-101 et seq., as modified by Section 3(42) of ERISA (the “**Plan Assets Regulation**”) (each as described in clauses (i), (ii) and (iii) a “**Benefit Plan Investor**”), engaging in certain transactions with persons who are “parties in interest” under ERISA or “disqualified persons” under the Code (collectively referred to as “**Parties in Interest**”) with respect to such Benefit Plan Investor. Such Parties in Interest could include, without limitation, the Bank, the Dealers, the Trustee, the registrar and each of their respective affiliates and agents. A violation of these prohibited transaction rules may result in civil penalties or other liabilities under ERISA and/or an excise tax under Section 4975 of the Code for those Parties in Interest, unless exemptive relief is available under an applicable statutory, regulatory or administrative exemption. In addition, the fiduciary of the Benefit Plan Investor that engaged in such a non-exempt prohibited transaction may be subject to penalties and liabilities under ERISA and the Code.

Whether or not the underlying assets of the Issuer were deemed to include “plan assets” of a Benefit Plan Investor as described below, the acquisition, holding and/or disposition of the Notes by a Benefit Plan Investor with respect to which we, a Dealer or certain of our or their respective affiliates is or becomes a Party in Interest may constitute or result in a prohibited transaction under ERISA or Section 4975 of the Code, unless those Notes are acquired, held and/or disposed of pursuant to and in accordance with an applicable exemption. The U.S. Department of Labor has issued five prohibited transaction class exemptions (“**PTCEs**”) that may provide exemptive relief if required for direct or indirect prohibited transactions that may arise from the purchase or holding of the Notes. These exemptions are:

- PTCE 84-14, an exemption for certain transactions determined or effected by independent qualified professional asset managers;
- PTCE 90-1, an exemption for certain transactions involving insurance company pooled separate accounts;
- PTCE 91-38, an exemption for certain transactions involving bank collective investment funds;
- PTCE 95-60, an exemption for transactions involving certain insurance company general accounts; and
- PTCE 96-23, an exemption for plan asset transactions managed by in-house asset managers.

In addition, ERISA Section 408(b)(17) and Section 4975(d)(20) of the Code provide an exemption for the purchase and sale of securities and related lending transactions; provided that neither the issuer of the securities nor any of its affiliates have or exercise any discretionary authority or control or render any investment advice with respect to the assets of any Plan involved in the transaction, and provided further that the Plan pays no more and receives no less than “adequate consideration” in connection with the transaction (the “**service provider exemption**”). Each of the above-noted exemptions contains conditions and limitations on its application. Fiduciaries of Benefit Plan Investors considering acquiring and/or holding the Notes in reliance on these or any other exemption should carefully review the exemption to assure it is applicable. There can be no assurance that any of the conditions of any such exemption will be satisfied.

The Plan Assets Regulations

The Plan Assets Regulation describes what constitutes the assets of a Benefit Plan Investor for purposes of the fiduciary responsibility and prohibited transaction provisions of Title I of ERISA and Section 4975 of the Code. Under the Plan Assets Regulation, if a Plan invests in an “equity interest” of an entity that is neither a “publicly-offered security” (within the meaning of the Plan Assets Regulation) nor a security issued by an investment company registered under the Investment Company Act, the Plan’s assets include both the “equity interest” and an undivided interest in each of the entity’s underlying assets unless either (a) immediately after the most recent acquisition of any “equity interest” in the entity, 25% or more of the total value of any class of “equity interest” in the entity (excluding the value of any interests held by certain persons, other than Benefit Plan Investors, that have discretionary control over the assets of the entity or provide investment advice to the entity for a fee (direct or indirect) or certain “affiliates” within the meaning of paragraph (f)(3) of the Plan Assets Regulation of such persons) is held by Benefit Plan Investors or (b) the entity is an “operating company” as defined in the Plan Assets Regulation. Under the Plan Assets Regulation, an “operating company” is an entity that is primarily engaged, directly or through a majority owned subsidiary or subsidiaries, in the production or sale of a product or service other than the investment of capital.

The Plan Assets Regulation defines an “equity interest” as any interest in an entity, other than an instrument that is treated as indebtedness under applicable local law and which has no substantial equity features. Consequently, under the Plan Assets Regulation, a security which is in the form of debt may be considered an “equity interest” if it has substantial equity features. Although the Plan Assets Regulation is silent with respect to the question of which law constitutes applicable local law for this purpose, the U.S. Department of Labor has stated that these determinations should be made under the state law governing interpretation of the instrument in question. In the preamble to the Plan Assets Regulation, the U.S. Department of Labor declined to provide a precise definition of what features are equity features or the circumstances under which those features would be considered “substantial,” noting that the question of whether a Benefit Plan Investor’s interest has substantial equity features is an inherently factual one.

If the Issuer is deemed under the Plan Assets Regulation to hold “plan assets” by reason of a Benefit Plan Investor’s investment in any of the Notes, such “plan assets” would include an undivided interest in the assets held by the Issuer and, among other things, transactions by the Issuer would be subject to the fiduciary responsibility and prohibited transaction provisions of Title I of ERISA and Section 4975 of the Code and the fiduciary making the investment on the Benefit Plan Investor’s behalf may be deemed to have delegated its asset management responsibility to the persons having authority and control over the Issuer’s assets.

It is not anticipated that (i) the Notes will be “publicly-offered securities” for purposes of the Plan Assets Regulation, (ii) the Issuer will be an investment company registered under the Investment Company Act or (iii) the Issuer will monitor whether investment in the Notes by Benefit Plan Investors will remain below the 25% threshold of the Plan Assets Regulations.

We believe that we should qualify as an “operating company,” although no assurance can be given in this regard.

Governmental plans (as defined in Section 3(32) of ERISA), certain church plans (as defined in Section 3(33) of ERISA), non-U.S. plans (as described in Section 4(b)(4) of ERISA) or other arrangements (“**Non-ERISA Arrangements**”), while not necessarily subject to the fiduciary responsibility or prohibited transaction requirements of ERISA or Section 4975 of the Code, may nevertheless be subject to substantially similar provisions under applicable federal, state, local, non-U.S. or other regulations, rules or laws (“**Similar Laws**”). Fiduciaries of any such Non-ERISA Arrangements should consult with their counsel before purchasing or holding any Notes.

Deemed Representation by Investors

Each purchaser and holder of a Note or any interest therein, including any transferee of such Note or interest, will be deemed to have represented and warranted by its purchase and holding of the Notes that it either (1) is not, and for so long as it holds the Notes or any interest therein, will not be a Benefit Plan Investor or a Non-ERISA Arrangement, and it is not purchasing or holding Notes on behalf of or with the assets of any Benefit Plan Investor or Non-ERISA Arrangement or (2) the purchase, holding and disposition of the Notes will not give rise to a non-exempt prohibited transaction under Section 406 of ERISA and Section 4975 of the Code, or, in the case of a Non-ERISA Arrangement, a violation of any applicable Similar Laws.

The preceding discussion is only a summary of certain implications under ERISA and Section 4975 of the Code of an investment in the Notes and does not purport to be complete. Due to the complexity of these rules and the

penalties that may be imposed upon persons involved in nonexempt prohibited transactions, it is important that fiduciaries or other persons considering purchasing Notes on behalf of or with the assets of any Benefit Plan Investor or Non-ERISA Arrangement consult with their counsel regarding the availability of exemptive relief under any of the PTCEs listed above, the service provider exemption or any other applicable exemption, or the potential consequences of any purchase, holding or disposition of the Notes under Similar Laws, as applicable.

Neither this discussion nor anything provided in this Offering Memorandum is or is intended to be investment advice to any Benefit Plan Investor or Non-ERISA Arrangement. Each purchaser or holder of a Note or any interest therein has the exclusive responsibility for ensuring that their purchase and holding of the Note complies with the fiduciary responsibility rules of ERISA, the Code and any Similar Laws, as applicable, and does not violate the prohibited transaction rules of ERISA, the Code or applicable Similar Laws. Nothing in this Offering Memorandum is, or should be construed as, a representation or advice as to whether an investment in the Notes is appropriate for Benefit Plan Investors or Non-ERISA Arrangements in general or for any particular Benefit Plan Investor or Non-ERISA Arrangement.

PLAN OF DISTRIBUTION

General

Under the terms of the dealer agreement, dated August 6, 2019 (as amended, modified, supplemented and/or restated from time to time, the “**Dealer Agreement**”), we may offer the Notes through the Dealers, each of which has agreed to use its reasonable efforts to solicit offers to purchase the Notes. The Dealers may offer and sell the Notes through certain of their affiliates or other registered broker-dealers or selling agents. Any agreement of the Dealers to solicit offers to purchase the Notes or to purchase Notes as principal is subject to the satisfaction of the conditions precedent set forth in the Dealer Agreement. In the Dealer Agreement, the Bank has agreed to reimburse the Dealers for certain of their expenses in connection with the establishment and any future update of the Program and the issue of Notes under the Program and to indemnify the Dealers against certain liabilities, including liabilities under the Securities Act, incurred by them in connection therewith.

We will pay each Dealer through which we sell Notes such commission as we and the applicable Dealer may agree at the time of sale. In addition, we may appoint Dealers in addition to the Dealers that are initially party to the Dealer Agreement. The commission will be specified in the applicable Pricing Supplement. We will have the sole right to accept offers to purchase Notes and may reject any proposed purchase of Notes, in whole or in part, whether placed directly by us or one of our affiliates or through the Dealers. Each Dealer will have the right, in its discretion reasonably exercised without advising us, to reject any proposed purchase of Notes through that Dealer in whole or in part. We may also sell Notes to the Dealers, as principals, at a negotiated discount, for resale to investors or to another broker-dealer — acting as principal for purposes of resale — at varying prices related to prevailing market prices at the time of resale to be determined by the Dealers, or if specified in the applicable Pricing Supplement, at a fixed offering price. Notes may be distributed on a syndicated basis, in which case the applicable Pricing Supplement will identify the Dealers constituting the syndicate, or on a non-syndicated basis. We have also reserved the right to sell Notes directly on our own behalf, in which case no commission will be payable to the Dealers. We can terminate the Program at any time.

Delivery of Notes

Under Rule 15c6-1 of the Exchange Act, trades in the secondary market generally are required to settle in two business days, unless the parties to any such trade expressly agree otherwise. The applicable Pricing Supplement may provide that the original issue date for the Notes may be more than two scheduled business days after the trade date for those Notes. Accordingly, in such a case, if you wish to trade those Notes on any date prior to the second business day before the original issue date for those Notes, you will be required, by virtue of the fact that those Notes initially are expected to settle in more than two scheduled business days after the trade date for those Notes, to make alternative settlement arrangements to prevent a failed settlement.

Sales Restrictions

The distribution of this Offering Memorandum and the offer and sale or resale of the Notes may be restricted by law in certain jurisdictions. If a jurisdiction requires that an offering of the Notes be made by a licensed broker or dealer and the Dealers or any affiliate of the Dealers is a licensed broker or dealer in that jurisdiction, the offering of the Notes shall be deemed to be made by the Dealers or such affiliates in such jurisdiction. To the extent any Dealer that is not a U.S. registered broker-dealer intends to effect any offers or sales of any Notes in the United States, it will do so through one or more U.S. registered broker-dealers in accordance with applicable U.S. securities laws and regulations. Persons into whose possession this Offering Memorandum comes are required by us and the Dealers to inform themselves about and to observe any such restrictions.

With regard to each Note, the relevant purchaser will be required to comply with the restrictions that we and the relevant purchaser will agree and as will be set out in the applicable Pricing Supplement. These restrictions may include, but are not limited to, the restrictions set forth below.

United States

The Notes have not been and will not be registered under the Securities Act or any state securities laws, and the Notes may not be offered or sold except pursuant to an effective registration statement or pursuant to transactions exempt from, or not subject to, registration under the Securities Act. Accordingly, the Notes are being offered and sold only:

- in the United States to persons reasonably believed to be qualified institutional buyers (as defined in Rule 144A) pursuant to Rule 144A under the Securities Act; and
- outside of the United States, to certain persons, other than U.S. persons, in offshore transactions meeting the requirements of Rule 903 of Regulation S under the Securities Act.

Mexico

The Notes have not been and will not be registered in Mexico with the RNV maintained by the CNBV and, therefore, may not be offered or sold in Mexico; the Notes may be offered or sold in Mexico, on a private placement basis, to investors that qualify as institutional or qualified investors, solely pursuant to the private placement exemption set forth in Article 8 of the Mexican Securities Market Law and regulations thereunder. We will notify the CNBV in respect of the terms and conditions of the offering of the Notes outside of Mexico. Such notice will be submitted to the CNBV for statistical and informational purposes only, to comply with Article 7, second paragraph, of the Mexican Securities Market Law and regulations thereunder. The delivery to, and receipt by, the CNBV of such notice does not constitute or imply any certification as to the investment quality of the notes, our solvency, liquidity or credit quality or the accuracy or completeness of the information set forth in this Offering Memorandum. This Offering Memorandum is solely our responsibility and has not been reviewed or authorized by the CNBV, and may not be publicly distributed in Mexico.

Prohibition of Sales to EEA Retail Investors

Unless the applicable Pricing Supplement in respect of any Notes indicates “Prohibition of Sales to EEA Retail Investors” as “Not Applicable,” any Notes offered hereunder are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the EEA. For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of MiFID II; (ii) a customer within the meaning of Insurance Distribution Directive, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in the Prospectus Regulation. Consequently, no key information document required by the PRIIPs Regulation for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

For the purposes of this provision, the expression an “offer” includes the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe for the Notes.

Prohibition of Sales to UK Retail Investors

Unless the applicable Pricing Supplement in respect of any Notes indicates “Prohibition of Sales to UK Retail Investors” as “Not Applicable,” any Notes offered hereunder are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the UK. For these purposes, a retail investor means a person who is one (or more) of the following: (i) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of UK domestic law by virtue of the EUWA; or (ii) a customer within the meaning of the provisions of the Financial Services and Markets Act 2000 (as amended, the “FSMA”) and any rules or regulations made under the FSMA to implement the Insurance Distribution Directive, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of UK domestic law by virtue of the EUWA; or (iii) not a qualified investor as defined in Article 2 of the Prospectus Regulation as it forms part of UK domestic law by virtue of the EUWA. Consequently, no key information document required by the UK PRIIPs Regulation as it forms part of UK domestic law by virtue of the EUWA for offering or selling the Notes or otherwise making them available to retail investors in the UK has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the UK may be unlawful under the UK PRIIPs Regulation.

For the purposes of this provision, the expression an “offer” includes the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe for the Notes.

United Kingdom

Each Dealer has advised and each further Dealer appointed under the Program will be required to advise that:

- in relation to any Notes which have a maturity of less than one year, (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (ii) it has not offered or sold and will not offer or sell any Notes other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Notes would otherwise constitute a contravention of Section 19 of the FSMA by the Issuer;
- it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and
- it has complied and will comply with all applicable provisions of the FSMA, with respect to anything done by it in relation to any Notes in, from or otherwise involving the UK.

Belgium

No action has been taken or will be taken in Belgium to permit a public offer of the Notes in accordance with the Belgian Act of 16 June 2006 on the public offer of securities and admission of securities to trading on a regulated market (the “**Belgian Prospectus Act**”) or a takeover bid in accordance with the Belgian Act of 1 April 2007 on takeover bids (*i.e.*, the Belgian Takeover Act) and no Notes may be offered or sold to persons in Belgium unless either such persons are qualified investors within the meaning of Article 10 of the Belgian Prospectus Act or one or more other exemptions available under Article 3 of the Belgian Prospectus Act and Article 6 (3) of the Belgian Takeover Act apply.

Brazil

The Notes have not been, and will not be, registered with the Brazilian Securities Commission (*Comissão de Valores Mobiliários*, or the “**CVM**”). The Notes may not be offered or sold in Brazil, except in circumstances that do not constitute a public offering or an unauthorized distribution under Brazilian laws and regulations. The Notes are not being offered into Brazil. Documents relating to the offering of the Notes, as well as information contained therein, may not be supplied to the public in Brazil, nor be used in connection with any public offer for subscription or sale of the Notes to the public in Brazil.

British Virgin Islands

The bonds may not be offered or sold in the British Virgin Islands, except in circumstances that do not constitute a public offering or distribution to the public under the laws and regulations of the British Virgin Islands.

Canada

The Notes may be sold only to purchasers purchasing, or deemed to be purchasing, as principal that are accredited investors, as defined in National Instrument 45-106 Prospectus Exemptions or subsection 73.3(1) of the Securities Act (Ontario), and are permitted clients, as defined in National Instrument 31-103 Registration Requirements, Exemptions and Ongoing Registrant Obligations. Any resale of the Notes must be made in accordance with an exemption from, or in a transaction not subject to, the prospectus requirements of applicable securities laws.

Securities legislation in certain provinces or territories of Canada may provide a purchaser with remedies for rescission or damages if this Offering Memorandum (including any amendment thereto) contains a misrepresentation; provided that the remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser’s province or territory. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser’s province or territory for particulars of these rights or consult with a legal advisor.

Pursuant to section 3A.3 of National Instrument 33-105 Underwriting Conflicts (NI 33-105), the Dealers are not required to comply with the disclosure requirements of NI 33-105 regarding underwriter conflicts of interest in connection with this offering.

Chile

The Notes may not be offered or sold in Chile, directly or indirectly, by means of a “**Public Offer**” as defined under the Chilean Securities Market Law (*Ley de Mercado de Valores*) and regulations from the Chilean Financial Markets Commission (*Comisión para el Mercado Financiero*, or “**CMF**”). Chilean institutional investors (such as banks, pension funds and insurance companies) are required to comply with specific restrictions relating to the purchase of the Notes. Pursuant to Chilean law, a Public Offering is an offering that is addressed to the general public or to certain specific categories and/or groups thereof. Considering that the definition of Public Offering is quite broad, even an offering addressed to a small group of investors may be considered to be addressed to a certain specific category or group of the public and therefore be considered public under applicable law. On June 27, 2012, the CMF issued *Norma de Carácter General No. 336* (General Rule No. 336, hereinafter “**NCG 336**”), which is intended to govern the private offering of securities in Chile. NCG 336 provides that the offering of securities that meet the conditions described therein shall not be considered a Public Offering in Chile and shall be exempted from complying with the general rules applicable to Public Offerings.

The following information is provided to prospective investors pursuant to NCG 336:

1. Date of commencement of the offer: April 28, 2023. The offer of the Notes is subject to NCG 336.
2. The subject matter of this offer are securities not registered with the Chilean Securities Registry (*Registro de Valores*) or the Foreign Securities Registry (*Registro de Valores Extranjeros*) kept by the CMF. As a consequence, the Notes are not subject to the oversight of the CMF.
3. Since the Notes are not registered in Chile, we are not obliged to provide public information about the Notes in Chile.
4. The Notes shall not be subject to Public Offering in Chile unless registered with the relevant securities registry kept by the CMF..

Colombia

The Notes have not been and will not be registered with or approved by the Superintendence of Finance of Colombia (*Superintendencia Financiera de Colombia*) or the Colombian Stock Exchange (*Bolsa de Valores de Colombia*). Accordingly, the Notes cannot be offered or sold in Colombia except in compliance with the applicable Colombian securities regulations.

France

Neither this Offering Memorandum nor any other offering material relating to the Notes described in this Offering Memorandum has been submitted to the clearance procedures of the *Autorité des Marchés Financiers* or of the competent authority of another member state of the European Economic Area and notified to the *Autorité des Marchés Financiers*. The Notes have not been offered or sold and will not be offered or sold, directly or indirectly, to the public in France. Neither this Offering Memorandum nor any other offering material relating to the Notes has been or will be:

- released, issued, distributed or caused to be released, issued or distributed to the public in France; or
- used in connection with any offer for subscription or sale of the Notes to the public in France.

Such offers, sales and distributions will be made in France only:

- to qualified investors (*investisseurs qualifiés*) and/or to a restricted circle of investors (*cercle restreint d'investisseurs*), in each case investing for their own account, all as defined in, and in accordance with, articles L.411-2, D.411-1, D.411-2, D.734-1, D.744-1, D.754-1 and D.764-1 of the French *Code monétaire et financier*;

- to investment services providers authorized to engage in portfolio management on behalf of third parties; or
- in a transaction that, in accordance with article L.411-2-II-1°-or-2°-or 3° of the French *Code monétaire et financier* and article 211-2 of the General Regulations (*Règlement Général*) of the *Autorité des Marchés Financiers*, does not constitute a public offer (*appel public à l'épargne*).

The Notes may be resold directly or indirectly, only in compliance with articles L.411-1, L.411-2, L.412-1 and L.621-8 through L.621-8-3 of the French *Code monétaire et financier*.

Hong Kong

The Notes may not be offered or sold by means of any document other than (i) in circumstances which do not constitute an offer to the public within the meaning of the Companies Ordinance (cap.32, laws of Hong Kong), or (ii) to “professional investors” within the meaning of the Securities and Futures Ordinance (cap.571, laws of Hong Kong) and any rules made thereunder, or (iii) in other circumstances which do not result in the document being a “prospectus” within the meaning of the Companies Ordinance (cap.32, laws of Hong Kong), and no advertisement, invitation or document relating to the Notes may be issued or may be in the possession of any person for the purpose of issue (in each case whether in Hong Kong or elsewhere), which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the laws of Hong Kong) other than with respect to notes which are or are intended to be disposed of only to persons outside Hong Kong or only to “professional investors” within the meaning of the securities and futures ordinance (cap. 571, laws of Hong Kong) and any rules made thereunder.

Ireland

The Notes will not and may not be offered, sold, transferred or delivered, whether directly or indirectly, otherwise than in circumstances which do not constitute an offer to the public within the meaning of the Irish Companies Act, 1963-2006, and the Notes will not and may not be the subject of an offer in Ireland which would require the publication of a prospectus pursuant to Regulation (EU) 2017/1129.

Japan

The Notes have not been and will not be registered pursuant to Article 4, Paragraph 1 of the Financial Instruments and Exchange Act. Accordingly, none of the Notes nor any interest therein may be offered or sold, directly or indirectly, in Japan or to, or for the benefit of, any “resident” of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organized under the laws of Japan), or to others for re-offering or resale, directly or indirectly, in Japan or to or for the benefit of a resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Financial Instruments and Exchange Act and any other applicable laws, regulations and ministerial guidelines of Japan in effect at the relevant time.

Luxembourg

In relation to the Grand Duchy of Luxembourg (“**Luxembourg**”), which has implemented Regulation (EU) 2017/1129, the Notes which are subject of the offering contemplated by this Offering Memorandum may not be offered to the public in Luxembourg, except that the Notes may be offered to the public in Luxembourg:

- to legal entities which are authorized or regulated to operate in the financial markets or, if not so authorized or regulated, whose corporate purpose is solely to invest in securities; or
- to any legal entity which has two or more of (i) an average of at least 250 employees during the last financial year; (ii) a total balance sheet of more than €43,000,000 and (iii) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts; or
- to fewer than 100 natural or corporations (other than qualified investors as defined in the Prospectus Law); or
- any other circumstances which do not require the publication by the issuer of a prospectus pursuant to Article 5 of the Prospectus Law.

For the purposes of this provision, the expression an “offer of notes to the public” in relation to any notes in Luxembourg means the communication in any form and by any means of sufficient information on the terms of the offer and the notes to be offered so as to enable an investor to decide to purchase or subscribe for the notes.

Netherlands

In the Netherlands, this Offering Memorandum may only be directed or distributed to, and the Notes may only be offered or sold to, qualified investors (*gekwalificeerde beleggers*) within the meaning of article 1:1 of the Dutch Financial Supervision Act (*Wet op het financieel toezicht*).

Peru

The Notes and the information contained in this Offering Memorandum are not being publicly marketed or offered in Peru and will not be distributed or caused to be distributed to the general public in Peru. Peruvian securities laws and regulations on public offerings will not be applicable to the offering of the Notes and therefore, the disclosure obligations set forth therein will not be applicable to the issuer or the sellers of the Notes before or after their acquisition by prospective investors. The Notes and the information contained in this Offering Memorandum have not been and will not be reviewed, confirmed, approved or in any way submitted to the Peruvian Superintendency of Capital Markets (*Superintendencia del Mercado de Valores*) or the SMV and the Notes have not been registered under the Securities Market Law (*Ley del Mercado de Valores*) or any other Peruvian regulations. Accordingly, the Notes cannot be offered or sold within Peruvian territory except to the extent any such offering or sale qualifies as a private offering under Peruvian regulations and complies with the provisions on private offerings set forth therein.

Singapore

This Offering Memorandum has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this Offering Memorandum and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the notes may not be circulated or distributed, nor may the notes be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the “SFA”), (ii) to a relevant person pursuant to Section 275(1), or any person pursuant to Section 275(1A), and in accordance with the conditions specified in Section 275 of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is: (a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor, securities (as defined in Section 239(1) of the SFA) of that corporation or the beneficiaries’ rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the notes pursuant to an offer made under Section 275 of the SFA, except: (i) to an institutional investor under Section 274 of the SFA or to a relevant person (as defined in Section 275(2) of the SFA), or to any person arising from an offer referred to in Section 275(1A), or Section 276(4)(i)(B) of the SFA; (ii) where no consideration is or will be given for the transfer; (iii) where the transfer is by operation of law; (iv) as specified in Section 276(7) of the SFA; or (v) as specified in Regulation 32 of the Securities and Futures (Offers of Investments) (Shares and Debentures) Regulations 2005 of Singapore.

Singapore Securities and Futures Act Product Classification—Solely for the purposes of its obligations pursuant to sections 309B(1)(a) and 309B(1)(c) of the SFA, the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A of the SFA) that the notes are “prescribed capital markets products” (as defined in the Securities and Futures (Capital Markets Products) Regulations 2018) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

Switzerland

This Offering Memorandum is not intended to constitute an offer or solicitation to purchase or invest in the Notes. The Notes may not be publicly offered, directly or indirectly, in Switzerland within the meaning of the Swiss Financial Services Act (“FinSA”) and no application has been made to admit the Notes to trading on any trading venue (exchange or multilateral trading facility) in Switzerland. Neither this Offering Memorandum nor any other

offering or marketing material relating to the Notes constitutes a prospectus pursuant to the FinSA, and neither this Offering Memorandum nor any other offering or marketing material relating to the Notes may be publicly distributed or otherwise made publicly available in Switzerland.

Uruguay

The Issuer represents and agrees that it has not offered or sold, and will not offer or sell, any securities to the public in Uruguay, except in circumstances which do not constitute a public offering or distribution under Uruguayan laws and regulations. The sale of any series of securities hereunder is not and will not be registered with the Central Bank of Uruguay to be publicly offered in Uruguay.

Other Matters

Purchasers of Notes sold outside the United States may be required to pay stamp taxes and other charges in accordance with the laws and practices of the country of purchase in addition to the price to investors specified in the applicable Pricing Supplement.

Some of the Dealers and their affiliates have engaged in, and may in the future engage in, investment banking and other commercial dealings in the ordinary course of business with us or our affiliates. They have received, or may in the future receive, customary fees and commissions for such transactions.

In addition, in the ordinary course of their business activities, the Dealers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of ours or our affiliates. If any of the Dealers or their affiliates has a lending relationship with us, certain of those Dealers or their affiliates routinely hedge, and certain other of those Dealers or their affiliates may hedge, their credit exposure to us consistent with their customary risk management policies. Typically, these Dealers and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in our securities, including potentially the Notes issued under the Program. Any such credit default swaps or short positions could adversely affect future trading prices of the Notes offered hereby. The Dealers and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

Application has been made to the Irish Stock Exchange plc trading as Euronext Dublin for the approval of this document as base listing particulars and for Notes issued under the Program to be admitted to the Official List and trading on the Global Exchange Market for a period of twelve months from the date of this base listing particulars. The Global Exchange Market is not a regulated market for the purposes of MiFID II. There is no assurance that any series of Notes will be listed and admitted to trading on the Global Exchange Market. The Notes may also be listed and traded on other non-EU regulated markets or not be listed at all.

Each series of Notes will constitute a new issue of securities with no established trading market. The Bank cannot assure you that an active trading market for the Notes will develop. If a trading market does not develop or is not maintained, holders of the Notes may experience difficulty in reselling the Notes or may be unable to sell them at all. Even if a market develops, the liquidity of any market for the Notes will depend on the number of holders of the Notes, the interest of securities dealers in making a market in the Notes and other factors. Accordingly, there can be no assurance as to the development or liquidity of any market for the Notes, the ability of holders to sell the Notes or the prices at which the Notes could be sold. Because the market for any series of Notes may not be liquid, you may have to bear the economic risk of an investment in the Notes for an indefinite period of time. If an active trading market does not develop, the market price and liquidity of the Notes may be adversely affected. If the Notes are traded, they may trade at a discount from their initial offering price depending upon prevailing interest rates, the market for similar securities, general economic conditions, the Bank's performance and business prospects and other factors.

The Dealers may engage in over-allotment, stabilizing transactions, covering transactions and penalty bids.

- Over-allotment involves sales in excess of the offering size, which creates a short position for the Dealers.
- Stabilizing transactions permit bids to purchase the underlying security so long as the stabilizing bids do not exceed a specified maximum.

- Covering transactions involve purchases of the Notes in the open market after the distribution has been completed in order to cover short positions.
- Penalty bids permit the Dealers to reclaim a selling concession from a broker/dealer when the Notes originally sold by such broker/dealer are purchased in a stabilizing or covering transaction to cover short positions.

These stabilizing transactions, covering transactions and penalty bids may cause the price of the Notes to be higher than it would otherwise be in the absence of these transactions. These transactions, if commenced, may be discontinued at any time.

Unless otherwise provided in the applicable Pricing Supplement, we have agreed that we will not, for a period of 30 days after the date of the pricing term sheet for the applicable Series of Notes, without the prior written consent of the relevant Dealers, directly or indirectly, sell, contract to sell, grant any option to purchase, or otherwise dispose of any debt securities of similar maturity, terms and conditions as such Notes that have tenor of more than one year, or any securities that represent the right to receive any such debt securities (other than under the Bank's *Programa de Emisión de Certificados Bursátiles* (Program for the Issuance of the Certificates) Revolving Bond Program pursuant to which the Bank may issue up to Ps.20 billion of indebtedness with maturities up to 35 years or any structured securities).

GENERAL INFORMATION

Clearing Systems

We will apply to have the Notes accepted for trading in book-entry form by DTC. In addition, application may be made to have the Notes accepted for clearance through Euroclear and Clearstream.

Listing

Application has been made to Euronext Dublin for the approval of this Offering Memorandum as listing particulars.

The Notes will not be registered with RNV maintained by the CNBV and, pursuant to the Mexican Securities Market Law, may not be offered or sold publicly or otherwise be subject to brokerage activities in Mexico, except that the Notes may be offered in Mexico to investors that qualify as institutional and accredited investors pursuant to a private placement exemption set forth in Article 8 of the Mexican Securities Market Law and regulations thereunder. As required under the Mexican Securities Market Law, we will notify the CNBV of the offering of the Notes outside of Mexico. Such notice will be submitted to the CNBV to comply with a legal requirement and for statistical and informational purposes only, and the delivery to and the receipt by the CNBV of such notice does not imply any certification as to the investment quality of the Notes, our solvency, liquidity or credit quality or the accuracy or completeness of the information included in this Offering Memorandum.

The Bank of New York Mellon SA/NV, Dublin Branch is acting solely in its capacity as listing agent for the Issuer (and not on its own behalf) in connection with the application for admission of the Notes to the Official List of Euronext Dublin and trading on its Global Exchange Market.

Trend Information

There has been no material adverse change in the prospects of the Bank since December 31, 2022.

Legal and Arbitration Proceedings

There are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Bank is aware) during a period covering at least the previous 12 months, which may have, or have had in the recent past, significant effects on the Bank's financial position or profitability.

Significant Change in Financial or Trading Position

There has been no significant change in the financial or trading position of the Bank since December 31, 2022.

Documents on Display

For so long as the Notes are listed on the Global Exchange Market, copies of the following items will be available in physical form for inspection at our principal executive offices, as well as at the corporate trust office of the Trustee, paying agent, transfer agent and registrar, as such address is listed on the inside back cover page of this Offering Memorandum:

- this Offering Memorandum;
- the applicable Pricing Supplement;
- the Bank's Bylaws and Articles of Association;
- a copy of the license of the Texas Agency issued by the State of Texas, pursuant to Section 204.103 of the Texas Finance Code;
- the Senior Notes Indenture or any Subordinated Notes Indenture, as applicable, each as may be amended or supplemented from time to time;
- our published annual audited consolidated financial statements;
- any published quarterly unaudited consolidated financial statements; and
- any other documents related to each offering of the Notes.

Administrative, Management and Supervisory Bodies' Conflicts Of Interests

Except as otherwise disclosed herein, there are no potential conflicts of interest between the duties of the members of our Board of Directors and their private interests and/or other duties.

Authorization

We have obtained all necessary consents, approvals and authorizations in connection with establishment of the Program.

LEGAL MATTERS

Unless otherwise specified in the applicable Pricing Supplement, the validity of the Notes will be passed upon for us by Galicia Abogados, S.C., Mexican counsel to the Bank, Simpson Thatcher & Bartlett LLP, New York counsel to the Bank, and Morgan, Lewis & Bockius LLP, Texas special counsel to the Bank, and certain legal matters will be passed upon for the Dealers by Cleary Gottlieb Steen & Hamilton LLP, New York counsel to the Dealers, and Ritch, Mueller y Nicolau, S.C., special Mexican counsel to the Dealers.

Cleary Gottlieb Steen & Hamilton LLP has from time to time provided, and may provide in the future, legal services to the Bank and its affiliates.

INDEPENDENT AUDITORS

The consolidated financial statements of BBVA México, S.A., Institución de Banca Múltiple, Grupo Financiero BBVA México and its subsidiaries as of December 31, 2022 and for the year then ended, included herein, have been audited by Mancera, S.C., Member of Ernst & Young Global Limited, independent auditors, as stated in their report appearing herein, and a member of the Mexican Institute of Public Accountants (*Instituto Mexicano de Contadores Públicos, A.C.*).

The consolidated financial statements of BBVA México, S.A., Institución de Banca Múltiple, Grupo Financiero BBVA México and its subsidiaries as of December 31, 2021 and 2020 and for the years then ended, included herein, have been audited by KPMG Cárdenas Dosal, S.C., independent auditors, as stated in their report appearing herein.

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

Opinion

We have audited the accompanying consolidated financial statements of BBVA México, S.A., Institución de Banca Múltiple and its Subsidiaries Grupo Financiero BBVA México 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 BBVA México, S.A., Institución de Banca Múltiple and its Subsidiaries Grupo Financiero BBVA México, (hereinafter, the "Institution") for the year then ended of December 31, 2022, have been prepared in all material aspects in accordance with the accounting criteria for credit institutions in Mexico (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 Institution'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 Institution'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 Institution, 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 Institution 's Management.

Additionally, we assessed the key quantitative and qualitative factors used by the Institution'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.

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 Institution describes the adoption of the new accounting criteria published by the Commission through a resolution that modifies the General Provisions applicable to the credit institution 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 Institution's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Institution or to cease operations, or has no realistic alternative but to do so.

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

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

BBVA México, S. A.,
Institución de Banca Múltiple, Grupo Financiero BBVA México
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		Liabilities and stockholders' equity	
Cash and cash equivalents (note 5)	\$ 275,795	Deposits (note 21):	
Margin accounts (derivative financial instruments) (note 6)	<u>9,718</u>	Demand deposits	\$ 1,367,045
Investments in financial instruments (note 7):		Time deposits:	
Negotiable financial instruments	244,852	General public	243,521
Financial instruments to collect or sell	195,031	Money market	4,110
Financial instruments to collect principal and interest (Securities) (net)	<u>93,899</u>	Securities issued	88,819
	<u>533,782</u>	Global deposit account without transactions	<u>6,716</u>
Debtors on repurchases/resales (note 8)	<u>26,324</u>		<u>1,710,211</u>
Derivative financial instruments (note 9):		Interbank and other borrowings (note 22):	
Trading	209,518	Short term	6,528
Hedging	<u>6,647</u>	Long term	<u>32,634</u>
	<u>216,165</u>		<u>39,162</u>
Valuation adjustments related to financial assets hedged	<u>(639)</u>	Creditors on repurchase/resale (note 8)	<u>187,057</u>
Loan portfolio with stage 1 credit risk:		Securities lending	<u>2</u>
Commercial:		Collateral sold or pledged (note 8):	
Business or commercial activity	593,756	Repurchase/resale (creditor balance)	15,304
Financial entities	29,571	Securities lending	<u>39,430</u>
Governmental entities	<u>185,736</u>		<u>54,734</u>
	<u>809,063</u>	Derivative financial instruments (note 9):	
Consumer	<u>346,721</u>	Trading	232,352
Mortgage:		Hedging	<u>8,820</u>
Medium class and residential	289,472		<u>241,172</u>
Low income	<u>4,098</u>	Valuation adjustments to financial liabilities hedged	<u>(4,771)</u>
	<u>293,570</u>	Lease liabilities (note 17)	<u>5,139</u>
Total loan portfolio with stage 1 credit risk	<u>1,449,354</u>	Other accounts payable:	
Loan portfolio with stage 2 credit risk:		Creditors on settlement of transactions	13,847
Commercial:		Creditors on margin accounts	342
Business or commercial activity	18,831	Creditors on cash received as collateral (note 9)	13,438
Consumer	8,616	Tax payable	2,797
Mortgage:		Sundry creditors & other accounts payable (note 19)	<u>125,351</u>
Medium class and residential	9,963		<u>155,775</u>
Low income	<u>465</u>	Financial instruments qualifying as liabilities:	
	<u>10,428</u>	Subordinated obligations outstanding (note 24)	38,623
Total loan portfolio with stage 2 credit risk	<u>37,875</u>	Income tax liability	<u>14,112</u>
Loan portfolio with stage 3 credit risk:		Liabilities for employee benefits (note 23)	<u>6,993</u>
Commercial:		Deferred credits and prepayments	<u>5,359</u>
Business or commercial activity	7,653		
Financial entities	<u>9</u>	Total liabilities	<u>2,453,568</u>
	<u>7,662</u>		
Consumer	<u>9,363</u>	Stockholders' equity (note 27):	
Mortgage:		Paid-in capital:	
Medium class and residential	6,592	Capital stock	24,143
Low income	<u>231</u>	Additional paid-in capital	<u>15,860</u>
	<u>6,823</u>		<u>40,003</u>
Total loan portfolio with stage 3 credit risk	<u>23,848</u>	Earned capital:	
Loan portfolio measured at fair value	<u>5,100</u>	Capital reserves	6,901
Loan portfolio	<u>1,516,177</u>	Cumulative results	267,846
(+/-)Deferred items	(3,271)	Other comprehensive income:	
(-)Less:		Valuation of financial instruments to collect or sell	(8,703)
Allowance for loan losses (note 12)	<u>(49,588)</u>	Valuation of derivative financial instruments for cash flow hedges	(1,353)
	<u>1,463,318</u>	Remeasurements of defined employee benefits	<u>(4,740)</u>
Loan portfolio (net)	<u>1,463,318</u>		<u>(14,796)</u>
Collection rights purchased (net)	1		<u>259,951</u>
Total loan portfolio (net) (note 10)	<u>1,463,319</u>	Total controlling interest	299,954
Other accounts receivable (net) (note 14)	139,189	Total non-controlling interest	<u>79</u>
Foreclosed assets (net) (note 15)	1,611		
Prepayments and other assets	3,309	Total stockholders' equity	<u>300,033</u>
Property, plant and equipment (net) (note 16)	36,289		
Assets from rights of use of property, plant and equipment (net) (note 17)	5,009		
Permanent investments (note 18)	1,183		
Assets for deferred income tax (net) (note 26)	38,096		
Intangible assets (net) (note 20)	<u>4,451</u>		
Total assets	<u>\$ 2,753,601</u>	Total liabilities and stockholders' equity	<u>\$ 2,753,601</u>

(Continued)

**BBVA México, S. A.,
Institución de Banca Múltiple, Grupo Financiero BBVA México
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	
Contingent assets and liabilities	\$ 2,524
Credit commitments (note 10)	792,231
Assets in trust or under mandate	
In trust	\$ 672,475
Under mandate	200
	\$ 672,675
Property in custody or under administration	\$ 264,323
Collaterals received by the Entity (note 8)	77,156
Collateral received and sold or delivered by the Entity (note 8)	55,253
Investment banking operations on behalf of third parties, net	2,035,619
Uncollected accrued interest derived from loan portfolio with stage 3 credit risk	2,195
Other registration accounts	3,772,334

The historical balance of capital stock as of December 31, 2022 is \$4,248.

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 Credit Institutions, issued by the National Banking and Securities Commission, pursuant to Articles 99, 101 and 102 of the Banking Law, consistently applied and mandatory, showing the operations carried out by the institution up to the aforementioned date, which were carried out and valued in accordance with sound banking practices and the applicable legal and administrative provisions.

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

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

BBVA México, S. A.,
Institución de Banca Múltiple, Grupo Financiero BBVA México
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 31)	\$	230,577
Interest expense (note 31)		<u>(63,784)</u>
Financial margin		166,793
Allowance for loan losses (note 12)		<u>(35,619)</u>
Financial margin adjusted for loan losses		131,174
Commissions and fees collected (note 32)		61,499
Commissions and fees paid (note 32)		(26,599)
Financial intermediation income (note 33)		11,553
Other operating income (expense)		(6,830)
Administrative and promotional expenses		<u>(67,683)</u>
Operating income		103,114
Interest in net income of other entities (note 18)		<u>268</u>
Income before income tax		103,382
Income tax (note 26)		<u>(26,852)</u>
Income from continuing operations		76,530
Discontinued operations		0
Net income	\$	<u><u>76,530</u></u>
Other comprehensive income:		
Valuation of financial instruments to collect or sell		(2,805)
Valuation of derivative financial instruments for cash flow hedges		(565)
Remeasurement of employee defined benefits		<u>(1,784)</u>
		(5,154)
Comprehensive income	\$	<u><u>71,376</u></u>
Net income attributable to:		
Controlling and non-controlling interest		76,558
Non-controlling interest		<u>(28)</u>
	\$	<u><u>76,530</u></u>
Comprehensive income attributable to:		
Controlling and non-controlling interest		71,404
Non-controlling interest		<u>(28)</u>
	\$	<u><u>71,376</u></u>
Basic earnings per common share (pesos per share)	\$	<u><u>5.04</u></u>

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

This consolidated statement of comprehensive income was prepared in accordance with the Accounting Criteria for Credit Institutions, issued by the National Banking and Securities Commission, pursuant to Articles 99, 101 and 102 of the Banking Law, consistently applied and mandatory, showing the income and expenses derived from the transactions carried out by the institution during the aforementioned period, which were carried out and valued in accordance with sound banking practices and the applicable legal and administrative provisions.

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

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

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BBVA México, S. A.,
Institución de Banca Múltiple, Grupo Financiero BBVA México
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					Total controlling interest	Non-controlling interest	Total stockholders' equity
	Capital stock	Addition al paid-in capital	Statutory reserves	Cumulative income	Valuation of financial instruments to collect or sell	Valuation of derivative financial instruments to hedge cash flows	Remeasurement of employee defined benefits			
Balances as of December 31, 2021	\$ 24,143	15,860	6,901	245,355	(5,898)	(788)	(2,956)	282,617	51	282,668
Retrospective adjustments for accounting changes				(4,695)				(4,695)		(4,695)
Initial balances as of January 1, 2022 (adjusted)	24,143	15,860	6,901	240,660	(5,898)	(788)	(2,956)	277,922	51	277,973
Owner's movements										
Declaration of dividends				(49,344)				(49,344)		(49,344)
Comprehensive income										
Net income				76,530				76,530	28	76,558
Other comprehensive income:										
Valuation of financial instruments to collect or sell					(2,805)			(2,805)		(2,805)
Result from valuation of cash flow hedging instruments						(565)		(565)		(565)
Remeasurement of employee defined benefits							(1,784)	(1,784)		(1,784)
Total	-	-	-	27,186	(2,805)	(565)	(1,784)	22,032	28	22,060
Balances as of December 31, 2022	\$ 24,143	15,860	6,901	267,846	(8,703)	(1,353)	(4,740)	299,954	79	300,033

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 Credit Institutions, issued by the National Banking and Securities Commission, pursuant to Articles 99, 101 and 102 of the Banking Law, consistently applied and mandatory, showing the movements in the stockholders' equity accounts derived from the transactions carried out by the institution during the aforementioned period, which were carried out and valued in accordance with sound banking practices and 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.

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

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

<u>Operating activities:</u>			
Income before income taxes		\$	103,382
<u>Adjustments for items associated with investing activities:</u>			
Losses or reversal of losses due to impairment of long-lived assets			61
Depreciation of property, plant and equipment			2,478
Amortization of installation expenses			1,924
Amortization of intangible assets			1,668
Equity in net income of other entities			(268)
			<u>5,863</u>
<u>Changes in operating items:</u>			
Change in margin accounts (derivative financial instruments)			(1,864)
Change in investments in financial instruments (securities) (net)			44,057
Change in debtors on repurchases/resales			(26,287)
Change in derivative financial instruments (assets)			(74,891)
Change in loan portfolio (net)			(202,949)
Change in other accounts receivable (net)			(74,502)
Change in foreclosed assets (net)			(288)
Change in other operating assets (net)			(6,515)
Change in deposits			162,219
Change in interbank and other borrowings			(98)
Change in creditors on repurchases/resales			13,084
Change in collateral sold or pledged			1,993
Change in derivative financial instruments (liabilities)			80,094
Change in other operating liabilities			(26,711)
Change in derivative financial instruments hedged (of hedged items related to operating activities)			838
Change in assets/liabilities from employee benefits			1,064
Change in other accounts payable			87,855
Payments of income tax			(18,822)
Net cash flows from operating activities			<u>67,522</u>
<u>Investment activities:</u>			
Proceeds for disposal of property, plant and equipment			64
Payments for acquisition of property, plant and equipment			(4,811)
Proceeds from disposal of associates, joint ventures and other permanent investments			33
Payments for acquisition of intangible assets			(2,063)
Net cash flows from investing activities			<u>(6,777)</u>
<u>Financing activities:</u>			
Cash dividend payments			(49,344)
Payments associated with financial instruments that qualify as liabilities			(31,448)
Net cash flows from financing activities			<u>(80,792)</u>
Net increase or decrease in cash and cash equivalents			(20,047)
Effects from changes in the value of cash and cash equivalents			(5,246)
Cash and cash equivalents at the beginning of period			301,088
Cash and cash equivalents at the end of the period		\$	<u><u>275,795</u></u>

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 Credit Institutions, issued by the National Banking and Securities Commission, pursuant to Articles 99, 101 and 102 of the Banking Law, consistently applied and mandatory, showing the cash inflows and cash outflows derived from the transactions carried out by the institution during the aforementioned period, which were carried out and valued in accordance with sound banking practices and 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.

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

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

Notes to the Consolidated Financial Statements

For the year ended December 31, 2022

(MXN millions, except otherwise noted)

(1) Activity and operating regulatory environment-

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

The powers vested in the Commission -as the entity regulating credit institutions-, include reviewing the Institution's financial information and ordering any amendments thereto, if any.

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

(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 "financial statements").

The Institution'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.



**BBVA México, S.A., Institución de Banca Múltiple,
Grupo Financiero BBVA México y subsidiarias**

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 ("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 credit institutions 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 Institution's financial statements have been prepared in accordance with the accounting criteria for credit institutions in Mexico (hereinafter, the "Accounting Criteria") established by the Commission. The Commission is responsible for inspecting and supervising credit institutions 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 for credit institutions and, in a broader context, if there are no criteria in the Mexican Financial Reporting Standards (*Normas de Información Financiera*) ("FRS") 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"), the supplementary process, provided for in NIF A-8, will be observed, and only in the event that the International Financial Reporting Standards (IFRS) referred to in NIF A-8, do not provide a solution to accounting recognition, a supplementary rule that belongs to any other regulatory scheme may be chosen, provided that it meets all the requirements indicated in said NIF. Supplementarity must be applied in the following 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, as long as it meets the requirements of criterion A-4 of the Commission.

c) Use of judgment and estimates

The preparation of the 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 financial statements, and the reported amounts of revenues and expenses during the period.



**BBVA México, S.A., Institución de Banca Múltiple,
Grupo Financiero BBVA México y subsidiarias**

Judgments

Information regarding judgments made in applying accounting policies that have the most significant effects on the amounts recognized in the financial statements is described in the notes to the 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 14 – Determination of allowance for loan losses and recoverability of accounts receivable: Assumptions and inputs used in its determination.
- Note 16 – 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 23 – Measurement of obligations for defined benefits: Key actuarial assumptions.
- Note 26 – 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 14 – Determination of allowance for loan losses and recoverability of accounts receivable: assumptions and inputs used in its determination.
- Note 16 – 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 23 – Measurement of obligations for defined benefits: Key actuarial assumptions.
- Note 26 – Recognition of deferred tax assets: Availability of future taxable income, and the realization of deferred taxes assets.



**BBVA México, S.A., Institución de Banca Múltiple,
Grupo Financiero BBVA México y subsidiarias**

d) Functional and reporting currency

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

For disclosure purposes in the notes to the financial statements, any reference to "pesos" or "\$" 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 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 Institution, 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 financial statements and have been consistently applied by the Institution.

(a) Recognition of effects of inflation

The Institution'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 Institution 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 the last year qualifies as non-inflationary. As mentioned above, the cumulative effects of inflation until December 31, 2007 are recorded in the consolidated statement of financial position as of December 31, 2022.



**BBVA México, S.A., Institución de Banca Múltiple,
Grupo Financiero BBVA México y subsidiarias**

(b) Principles of consolidation

The accompanying financial statements include the Institution'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 consolidated with the Institution as of December 31, 2022 are detailed as follows:

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

(1) At a General Extraordinary Shareholders' Meeting held on November 1, 2019, it was resolved to approve the early dissolution and liquidation of this Company, effective on that same date, since as of September 2018, the company suspended the placement of its credit products to the public and initiated the orderly closing of operations and branches, thus the financial statements as of December 31, 2022 and for the year ended on said date have not been prepared on the basis of going concern and therefore, these financial statements have been prepared in accordance with the applicable Accounting Criteria, determining estimated values from the disposal or liquidation of all net assets. Until the relevant liquidation procedures before the Commission are completed, the Company shall continue to comply with the Banking Regulation applicable to regulated multi-purpose financial corporations (SOFOMs).

As of December 31, 2022, the assets amount to \$115, and the stockholders' equity to \$115 and the net income \$8.

(2) Trust 881 was terminated during 2022. The loan portfolio corresponding to this Trust was already included in the consolidated financial statements of the Institution, so there was no accounting effect derived from said termination, see note 13.



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(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.



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Also, it must apply the “Clarifications to Specific Rules,” included in Schedule 33 of the Regulations, 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 “Impairment of financial instruments receivable” 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 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 credit institutions 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 institutions 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.



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The Institution 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 Institution's initial consolidated statement of financial position is shown below, as follows:

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Statement of financial position

ASSETS	12/31/2021	ASSETS	NET IMPACT	01/01/2022	EFFECT
Cash in hand	\$ 301,088	Cash and cash equivalents		\$ 301,088	
Margin accounts (derivatives)	8,054	Margin accounts (derivative financial instruments)		8,054	
Investment in securities	584,297	Investments in financial instruments	\$ (3)	584,294	Implementation of Business Models, ALL of the FICPI instruments
Trading securities	289,731	Negotiable financial instruments		289,731	
Available-for-sale	221,891	Financial instruments to collect or sell		221,891	
Held to maturity	72,675	FICPI (securities) (net)	(3)	72,672	
Repurchase agreement receivables	37	Repurchase agreement receivables		37	
Securities lending	-	Securities lending		-	
Derivatives	146,702	Derivative financial instruments	(312)	146,390	Recognition of counterparty risk adjustment (CVA) for OTC derivative positions



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ASSETS	12/31/2021	ASSETS	NET IMPACT	1/01/2022	EFFECT
Valuation adjustments for the hedging of financial assets	475	Valuation adjustments for the hedging of financial assets		475	
Performing loan portfolio	1,288,845	Loan portfolio with stage 1 credit risk	(42,139)	1,246,706	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	30,919	30,919	
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	1,311,544	Loan portfolio	57	1,311,601	
Allowance for loan losses	(34,810)	Allowance for loan losses	(8,052)	(42,862)	Increase in ALL due to New Rating Models
Loan portfolio (net)	1,276,734	Loan portfolio (net)	(7,995)	1,268,739	
Other accounts receivable	64,947	Other accounts receivable (net)	(35)	64,912	Increase in ALL for other accounts receivable (receivable from employees)
					Initial recognition of foreclosed assets, considering the lower of the net realizable value and the gross credit value.
Foreclosed assets	989	Foreclosed assets (net)	334	1,323	
		Advanced payments and other assets (net)	(346)	(346)	Reclassification of origination costs of financial liabilities
Other assets	-	Property, plant and equipment (net)		35,956	
Property, plant and equipment	35,956	RU assets property, plant and equipment (net)	4,227	4,227	Right-of-use assets from long-term leases of branch offices
		Permanent investments	-	1,086	
Permanent investments	1,086	Deferred income tax and employee profit sharing (net)	2,313	28,470	Deferred tax on initial effects
Deferred income tax and employee profit sharing (net)	26,157	Intangible assets		6,943	
Intangible assets	6,943				
Total assets	\$ 2,453,465	Total assets	\$ (1,814)	\$ 2,451,651	



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Statement of financial position

LIABILITIES AND EQUITY	12/31/2021	LIABILITIES AND EQUITY	NET IMPACT	01/01/2022	EFFECT
Traditional deposits	1,560,791	Traditional deposits	(6)	1,560,785	
Demand deposits	1,242,299	Demand deposits		1,242,299	
Time deposits	223,105	Time deposits		223,105	
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	
Interbank and other borrowings	39,433	Interbank and other borrowings		39,433	
Technical reserves	-	Technical reserves		-	
Reinsurance accounts payable	-	Reinsurance accounts payable		-	
Repurchase/resale agreements payable	173,973	Repurchase/resale agreements payable		173,973	
Securities lending	2	Securities lending		2	
Collateral sold or pledged	52,741	Collateral sold or pledged		52,741	
				-	Recognition of the debit valuation adjustment (DVA) for OTC derivative positions
Derivatives	158,625	Derivative financial instruments	(1,025)	157,600	
			-	-	
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	102,316	Other accounts payable		102,316	
Employee profit sharing payable	2,582	Provisions for sundry obligations		2,582	
Other sundry creditors	99,734	Other sundry creditors		99,734	
Subordinated debt	72,055	Subordinated debt	(291)	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	2,170,797	TOTAL, LIABILITIES	2,858	2,173,655	
STOCKHOLDERS' EQUITY	282,617	STOCKHOLDERS' EQUITY	(4,667)	277,950	
Contributed capital	40,003	Contributed capital		40,003	
Earned capital:	242,614	Earned capital:	(4,667)	237,947	
Equity reserves	6,901	Equity reserves		6,901	
				-	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.
Results of previous years	185,095	Cumulative results:	(4,695)	180,400	
Net income	60,260			60,260	
Other comprehensive income	(9,642)	Other comprehensive income	28	(9,614)	
Noncontrolling interest	51	Noncontrolling interest		51	
LIABILITIES AND EQUITY	2,453,465	LIABILITIES AND EQUITY	(1,809)	2,451,656	



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The effect of the implementation, net of deferred taxes (IT and EPS) was a decrease of (\$4,695) 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	(31)	10	(21)
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	\$ (7,005)	2,310	(4,695)

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 Institution'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 Institution 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.



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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 Institution 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 Institution 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 Institution 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 Institution's own credit risk, respectively. The initial effect recognized against cumulative earnings within stockholders' equity is as follows:

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



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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 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 Institution 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 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.
- 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.



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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 Institution.

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. The Institution 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 and specified in criterion A-2; 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.”



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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 Institution and are as follows:

- The provisions of Mexican FRS C-9 will not be applicable in determining the guarantees (avales) granted, in which case the provisions of B-8 “Guarantees” will apply.
- Letters of credit.

Letters of credit issued by the entity upon receipt of its amount are subject to Mexican FRS C-9.

The liability arising from the issuance of the letters of credit referred to in the preceding paragraph will be presented in the statement of financial position, under other accounts payable.

Management 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 Institution’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 Institution are as follows:

- In addition to the terms included in Mexican FRS C-10 and defined in the glossary contained in Mexican FRS, the term spot price is defined, and it is specifically mentioned that with respect to foreign currency, the spot price will be the closing exchange rate.
- The term “credit derivative financial instruments” is defined, stating that they are two types: a) Credit Default Derivative Financial Instruments 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 financial statements as a whole. Also, the Institution 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.



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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 Institution are as follows:

For purposes of complying with the disclosure standards contained in Mexican FRS C-13, 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, have power of command, this being understood as the de facto capacity to decisively influence the resolutions adopted at shareholders’ meetings or meetings of the board of directors or by the management, conduct and execute the business of the entity in question or of the legal entities it controls.

In addition to the disclosures required by Mexican FRS C-13, entities must disclose, in aggregate form, through notes to the financial statements, information of any transactions between related parties, including:

- a) A generic description of the transactions, such as:
 - loans made or received,
 - transactions with financial instruments where the issuer and holder are related parties,
 - repurchases or resales,
 - securities lending,
 - derivative financial instruments,
 - hedging transactions,
 - sale and acquisition of loan portfolio, and
 - those carried out through any person, trust, entity or other, when the counterparty and source of payment of said transactions depend on a related party;
- b) any other information necessary to fully understand the transaction, and
- c) the full amount of employee benefits provided to key management personnel or relevant executives of the entity.

Disclosure is only required for transactions with related parties that represent more than 1% of the net capital of the month prior to the date of preparation of the relevant financial information. The net capital will be determined in accordance with the capital requirements in the Banking Regulations.



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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-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 Institution:

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 Institution:

Expected loan losses due to the impairment of investments in financial instruments as indicated in section 45 of Mexican FRS C-2 must be determined in accordance with the provisions of Mexican FRS C-16. In this regard, although the Commission does not establish specific methodologies for their determination, it would be expected that the expected loan losses due to the impairment of securities issued by a counterparty are consistent with the impairment determined for loans made to the same counterparty.

With respect to the determination of the estimated impact on the consolidated financial statements on the transition date, the Institution will apply the rating methodologies to make up the amount of reserves of financial assets under Bulletin B-6 “Loan Portfolio” and the guidelines for the Banking Regulations applicable as of January 1, 2022, as follows:

- a) Internal Reserve Methodologies based on Mexican FRS C-16 for all the relevant modelable portfolios: credit card, enterprises, large enterprises, mortgages, non-revolving consumer, and small and medium-size enterprises, both for the portfolios that are authorized and those in the process of authorization for the use of a model based on internal ratings for the capital requirement; with a prior notice to the Commission and once said regulator authorized the implementation plan in January 2022, with the commitment that said methodologies be adopted effective January of 2022; and



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- 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 Institution informed the Commission of the decision to cease the application of internal reserve methodology based on FRS C-16 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 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 1, 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, Management has determined the loan losses in accordance with the provisions of Mexican FRS C-16 and is consistent with the loan portfolio rating methodology. Management 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 \$21 charged to the results of previous years.



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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 Institution are as follows:

For the purposes of Mexican FRS C-19, liabilities related to the transactions referred to in B-3 and B-4 are not included, as they are already contemplated in said criteria.

- *Initial recognition of a financial instrument payable.*

The provisions of paragraph 41.1.1, number 4, of Mexican FRS C-19 will not apply regarding the use of the market rate as the effective interest rate in the valuation of the financial instrument payable when both rates are substantially different.

- *Financial instruments payable valued at fair value*

The exception to irrevocably designate in its initial recognition a financial instrument payable to be subsequently valued at fair value with effects on the net result referred to in section 42.2 of Mexican FRS C-19 will not be applicable to entities.

Management 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.



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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 Institution are as follows:

- For the purposes of Mexican FRS C-20, 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 will not apply regarding the use of the market rate as the effective interest rate in the valuation of the financial instrument to collect principal and interest when both rates are substantially different.
- *Collection rights*

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

- *Fair Value Option*

The option to irrevocably designate in its initial recognition a financial instrument to collect principal and interest, to be subsequently valued at fair value with effects on the net result referred to in paragraph 41.3.4 of the Mexican FRS C-20, will not be applicable.

- *Loans to officers and employees*

The interest originated from loans to officials and employees will be presented in the statement of comprehensive income under other income (expenses) of the transaction.



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– *Loans to retirees*

Loans to retirees will be considered part of the loan portfolio and must adhere to the guidelines of criterion B-6, except when, as with active employees, the collection of said loans is made directly, in which case they will be recorded in accordance with the guidelines applicable to loans to officers and employees.

Management 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.

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 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 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 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 financial statements as a whole.



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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 Institution are as follows:

Regarding the disclosure required under Mexican FRS D-4 of temporary differences, those differences related to the financial margin and the main transactions of the entities must also be disclosed.

Management 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 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, 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 Institution 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 matter of B-6, with the exception of the provisions of paragraph 67 of B-6.

For purposes of the provisions of paragraph 42.1.4, subsection c) and subsection d) of Mexican FRS D-5, it will be understood that the term of the lease covers most of the economic life of the underlying asset, if said lease covers the least 75% of its useful life. Also, the present value of the lease payments is substantially the entire fair value of the underlying asset, if said present value constitutes at least 90% of said fair value.



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– *Operating leases*

Accounting for lessor

In the amount of amortizations that have not been settled within a period of 30 calendar days following the due date of the payment, lessor must create the relevant allowance, suspending the accumulation of income, including control thereof in memorandum accounts under “Other registration accounts.”

Lessor must present in the statement of financial position the account receivable under “Other registration accounts,” and the rental income under “Other income (expenses)” of the transaction in the statement of comprehensive income.

Regarding the estimated impact on the Financial Statements on the transition date, the Institution has chosen to apply the provisions of Article Transitory Eight of the Resolutions (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 Institution has determined that the initial impact and recognized right-of-use assets and lease liabilities is an approximate amount of \$4,227, mainly from the branch network premises.

- i) The main amendments to the Standards regarding recognition, valuation, reporting and disclosure applicable to specific items of the financial statements are detailed below:

A. B-1 “Cash and cash equivalents.”

It states to include within this item of the financial statements the “cash equivalents”, which are short-term, highly liquid securities, easily convertible into cash, subject to immaterial risks of changes in their value and held to meet short-term commitments other than for investment purposes; they can be denominated in Mexican or foreign currency; for example, interbank loan transactions agreed for a term of less than or equal to three business days, the purchase of foreign currency that are not considered derivative financial instruments as provided by the Central Bank in the applicable regulation, as well as other cash equivalents such as correspondents, documents of immediate collection, precious metals and highly liquid financial instruments.

Highly liquid financial instruments are securities the disposal of which is expected within a maximum of 48 hours from their acquisition, generate returns and have immaterial risks of changes in value.

Management 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.

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.



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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.

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 Institution to administer and manage the loan portfolio and whether contractual cash flows will be obtained from the flows, from the sale of the loan portfolio, or both. It states that the BM is a question of facts and not of an intention or affirmation.
- It states that the loan portfolio must be recognized under B-6 if the objective of the BM is to keep it to collect the contractual cash flows and the terms of the contract provide for cash flows on pre-established dates that correspond only to payments of principal and interest on the principal amount outstanding. That if this is not fulfilled, it must be dealt with in accordance with the provisions of Mexican FRS C-2, "Investment in financial instruments."
- It provides for the criteria to identify the considerations to determine the realization of the contractual cash flows of the loan portfolio, either through collection or sale. Although it states that sales do not determine the BM, it clarifies that a historical analysis of past sales and expectations of future sales must be conducted.
- It states that the BM may be to keep the loan portfolio to collect its cash flows, even if the entity sells it when there is an increase in its credit risk and indicates that there is no inconsistency when sales are made of the high-risk portfolio.

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



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- 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 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.



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- 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 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.



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- 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 Institution during 2022 can continue to use the contractual interest rate for the accrual of the interest of the loan portfolio, as well as the application of the straight-line method for the recognition of origination fees and the accrual of transaction costs, as provided in accounting criteria B-6 in force until December 31, 2021, disclosing such circumstance in the quarterly and annual financial statements for said fiscal year. This situation that has already been notified to the authority. It is worth mentioning that the results of applying the effective interest method as of January 2023 are shown in note 40 "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."



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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 to in paragraph 11, 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.



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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.

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 FRS 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.”



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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 Institution'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.



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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 counterparty 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 Institution ensures that financial assets and liabilities are valued in accordance with the criteria defined in FRS B-17 as well as in the Regulations.

Valuación Operativa y Referencias de Mercado, S. A. de C. V. (Valmer) is the Institution'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.



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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 Institution, 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 Institution 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 Institution 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.



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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 Institution 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 Institution's Management, and the evaluation of the contractual characteristics of the cash flows.

The business model is based on the way in which the Institution manages investments in financial instruments to generate cash flows and not on a particular intention to hold an instrument.

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,



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- 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 Institution 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.



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– *Reclassifications*

Reclassifications of financial instruments are only carried out when the Institution 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 Institution 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 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 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 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.



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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 Institution 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 Institution 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.



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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, the Institution recognized it in memorandum accounts, by following the guidelines on custody transactions established in accounting criterion B-9, "Custody and Administration of Assets" until the maturity date of the repurchase/resale agreement.

When the buyer sells the collateral or provides it as a guarantee, the proceeds from the transaction are recognized, as well as an account payable for the obligation to repay the collateral to the selling party (measured initially at the price agreed), which is valued at fair value 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.

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 Institution acts as lender, it records the security subject matter of the lending transferred to the borrower as restricted, for which purpose the standards for valuation, presentation and disclosure, based on the respective accounting treatment, are followed. Furthermore, the collateral received 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 Institution records the security subject matter of the loan received in memorandum accounts, following the valuation guidelines for the securities recognized, in the account



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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 Institution 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 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 there is a contractual right to offset amounts and the intention to either settle them on a net basis or realize the asset and cancel the liability simultaneously.

(l) Derivatives

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

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

The Institution's policies require that for purposes of entering into derivative transactions, the 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.



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The Institution initially recognizes all derivatives (including those forming part of hedges) as assets or liabilities (depending on the rights and/or obligations they embody) in the consolidated 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.



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

In the case of debt and bond contracts 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



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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 Institution 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 Institution 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 Institution's own credit risk, respectively. The Institution 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 Institution'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," as well as deferred loan items, is presented as a deduction from the total loan portfolio balance.

The Institution 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



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loans guaranteed by the home of the borrower and mortgage loans granted to former employees who rendered services to the Institution.

- 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 Institution 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 Institution's consolidated statement of financial position, loans considered as restricted will be grouped as stage 1, 2 and 3, as the case may be, and according to their nature as commercial, consumer or mortgage. The breakdown of restricted loans is made within the notes to the financial statements and not within the structure of the Institution's consolidated 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.



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- 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.



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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."



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

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

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



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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:

- 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.



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In accordance with the Regulations and since the Institution applies internal reserve methodologies based on FRS C-16 "Impairment of financial instruments receivable," 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-Revolver (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 than for Large Enterprises and Enterprises-

The Institution 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:

$$\text{Reserves Stage 1 or 3}_i = R_i = PD_i \times LGD_i \times EAD_i$$

Where:

$\text{Reserves Stage 1 or 3}_i$	=	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.



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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:

<i>Full Life Reserves_i</i>	=	Amount of the estimate to be established for the i-th stage 2 loan.
<i>PD_i</i>	=	Probability of Default of the i-th loan.
<i>LGD_i</i>	=	Severity of the Loss on the i-th loan.
<i>EAD_i</i>	=	Exposure to Default on the i-th loan.
<i>r_i</i>	=	Annual interest rate of the i-th loan charged to client.
<i>n</i>	=	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.
<i>PAYMENT_i</i>	=	Theoretical annual amortizable payment of the i-th loan, defined as:

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



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

$$\text{Reserves Stage } 2_i = \text{Max} (\text{Full Life Reserves}_i, PD_i \times LGD_i \times EAD_i)$$

PD_i will be calculated according to the following equation:

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

For purposes of the foregoing:

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

$$\text{Total Credit Score}_i = \alpha \times (QCSt_i) + (1 - \alpha) \times (QCSl_i)$$

Where:

<i>Quantitative Credit Score_j</i> (<i>QCSt_i</i>)	=	The score obtained for the i-th borrower when evaluating the risk factors according to the Regulations.
<i>Qualitative Credit Score_j</i> (<i>QCSl_i</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 the Regulations, 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:

- 45%, for preferred positions classified under Schedule 18, 19, 20 and 22 of the Regulations.
- 55% for preferred positions classified under Schedule 21 of the Regulations.
- 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.
- 100%, for loans which are 18 months or more in arrears for the amount due and payable under the original terms.



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The EAD_i will be determined based on the following:

- 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 of the Regulations that have a drawn balance as of the rating date:

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

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

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

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

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

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

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



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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 stage 3.

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

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

$$\text{Reserves Stage 1 or 3}_i = R_i = PD_i \times LGD_i \times EAD_i$$

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.



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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:

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



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PD_i will be calculated according to the following equation:

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

For purposes of the foregoing:

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

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

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 Institution 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 of the Regulations, 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.



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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:

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

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.



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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 of the Regulations with a drawn balance as of the rating date:

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

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

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

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

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

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

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



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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 stage 3.

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

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



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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.



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

Pursuant to Resolution issued by the Commission on January 6, 2017, the Institution 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:

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

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 Institution considers a loss model according to the following:

- PD = it is determined based on the loan type classification (B, A, N, P and O), depending on the delays, incorporating in their determination risk coefficients with specific values established in the Regulations for each loan type, borrower's payment behavior variables within the Institution and other entities of the Mexican Financial System, mainly.
- LGD = it is determined based on the loan type classification (B, A, N, P and O), depending on the delays, incorporating in their determination 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.



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Allowances for the consumer portfolio that do not include credit card transactions, established by the Institution 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.



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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 Institution 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 Institution the application of internal rating models to determine the allowance for loan losses with an advanced approach, through official communications 121/1/116843/2014 and 121/1/116844/2014 dated April 21, 2014, which are reviewed annually according to the 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 Institution classifies the commercial credit loan portfolio into Large Enterprises and Enterprises groups, it considers an expected loss model for the following 12 months, according to the following:

Probability of Default (PD), 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.



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Commercial Loans other than for Large Enterprises and Enterprises-

For rating the commercial portfolio, other than the portfolio corresponding to Large Enterprises and Enterprises, the Institution 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:

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

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:

$$PD_i = \frac{1}{1 + e^{-(500 - \text{Total Credit Score}_i) \times \frac{\ln(2)}{40}}}$$

For purposes of the foregoing:

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

$$\text{Total Credit Score}_i = \alpha \times (QCSt_i) + (1 - \alpha) \times (QCSl_i)$$

Where:

- Quantitative Credit Score_i* ($QCSt_i$) = The score obtained for the i-th borrower when evaluating the risk factors according to the Regulations.
- Qualitative Credit Score_i* ($QCSl_i$) = 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:



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- 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:

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

Where:

S_i = The outstanding balance of the 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 Institution may recognize the security interests in real property, or personal or credit-derived collateral in the estimate of the LGD, with the aim of decreasing the reserves derived from the portfolio classification, according to the 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)*



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For rating states and municipalities, the Institution 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:

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

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:

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

For purposes of the foregoing:

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

$$\text{Total Credit Score}_i = \alpha \times (QCSt_i) + (1 - \alpha) \times (QCSl_i)$$

Where:

- $QCSt_i$ = Quantitative Credit Score = IA + IB + IC
- $QCSl_i$ = Qualitative Credit Score = IIA + IIB
- α = 80%
- IA = Average days in arrears with banking institutions + % 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.



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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:

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

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



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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 Institution 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 Institution 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 Institution as of August 2020 for the housing mortgage portfolio groups.

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

- PD = it is estimated based on scores allocated, considering the admission tool, credit behavior or number of defaults (scoring model), whether the loan is refinanced or not, based on the loan aging and the type of portfolio.
- LGD = it is estimated through the cash flows discount of delinquent exposures recovered at different times, estimated to be recovered, adjusted for 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 Institution as a result of the loan rating, are classified according to the risk levels and percentages shown below:



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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 Institution 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:

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

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 Institution considers a loss model according to the following:

- PD = it is determined based on the loan type classification (B, A, N, P and O), depending on the delays, incorporating in their determination risk coefficients with specific values established in the Regulations for each loan type, borrower's payment behavior variables within the Institution and other entities of the Mexican Financial System, mainly.



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- 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 Institution 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 Bank'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 Institution as of July 2019.

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

For rating revolving consumer portfolio, the Institution 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.



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Allowances for the credit card portfolio, established by the Institution 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.



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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 stage 3 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. Within the credit manual, the policies and elements that prove the practical impossibility of recovery are established. When the unpaid balance exceeds the associated estimate, before making the write-off, the missing amount of the estimate is increased.



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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 Institution (the "Transferor") transfers the financial assets through a securitization vehicle (the "Trust"), to enable the latter to issue securities through an intermediary (the "Institution") 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 Institution, through Document 153/1850110/2007, registered in the National Securities Register of the Share Certificate Issuance Program up to the amount of \$20,000 or its equivalent in UDIs with an effective term of five years as of the authorization date; such program is revolving.

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

- The Institution has tools to measure and quantify the impact of securitized transactions on the statement of financial position and consolidated statement of results 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 Institution and, if applicable, it also values the bond position to consider its possible sale on a secondary market. The valuation model is used to calculate the Institution's constant historical prepayment rate computation, the mortality rate, current credit percentage, interest rate, issuance amount and value of guarantees with respect to the loan guarantee, among other items.

During 2022, trust 881 was extinguished. As of the close of 2022, there are no securitization trusts in the Institution.

The characteristics of securitization contracts are detailed in Note 13.

(p) Other accounts receivable, net

The Institution'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.



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(q) Net foreclosed assets or received through payment in kind

Property acquired through legal foreclosure must be recorded on the date on which the foreclosure ruling is issued and final.

Property that has been received by as payment is recorded on the date the payment deed is signed, or on which the transfer of ownership of the property has been formalized.

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%



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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%

(r) 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.



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(s) Leases

The Institution 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 Institution uses the definition of a lease in FRS D-5 "Leases."

The Institution 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 Institution at the end of the lease or the cost of the right-of-use asset reflects that the Institution 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 Institution or the risk-free rate determined with reference to the term of the lease.

The Institution 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 Institution is reasonably certain to exercise, lease payments in an optional renewal period if the Institution 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.



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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 Institution's estimate of the amount expected to be paid under a residual value guarantee;
- if the Institution 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 Institution 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 Institution has decided not to recognize right-of-use assets and lease liabilities of low-value assets and short-term leases, including the lease of branches and offices.

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

(t) Impairment of long-lived assets in use

The Institution 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 Institution records the required allowances. When it is intended to sell the assets, these are recorded in the consolidated financial statements at the lower of net 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.

(u) Equity investments

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



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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.

(v) 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.

(w) Advance payments and other assets and intangibles

Advance payments and other assets: includes disbursements made in advance for expenses and commissions as of December 31, 2022, and it amounts to \$3,309.

Intangibles: is made up of software and computer developments, that are originally recorded at the value disbursed and the amortization thereof with a defined life is calculated in a straight line at a rate of 20%. As of December 31, 2022, the amount amounts to \$4,451.



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(x) 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 Institution, 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 fees and other charges paid or received between the parties to the contract that are part of the effective interest rate, such as interest, fees, 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 Institution will be required to report the funds corresponding to public welfare within a maximum period of fifteen days from December 31 of the year in which the aforementioned event occurs.

Traditional deposit-taking interests are recognized in 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.

(y) 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.



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(z) 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 Institution has a legal or assumed obligation to pay this amount as a result of past services provided and the obligation can be reasonably estimated.

Long-term direct benefits

The Institution's net obligation regarding direct long-term benefits the Institution is expected to pay after 12 months from the date of the most recent consolidated 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 Institution has no realistic alternative other than to face the payments or cannot withdraw the offer of those benefits, or when it meets the conditions to recognize the costs of a restructuring, whichever occurs first. If they are not expected to be settled within 12 months after the end of the fiscal year, then they are discounted.

Post-employment benefits

Defined contribution plans

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

Defined benefit plans

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

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



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

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.

(aa) Provisions

The Institution 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.

(ab) 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.

(ac) Financial margin

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



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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 expenses include discounts and interest for deposits from the Institution, interbank loans, repurchase agreements and securities lending and subordinated obligations, as well as issuance and discount expenses for debt placement. 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.

Also, 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.

(ad) 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.



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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.

(ae) Memorandum accounts

- (i) Own account transactions:

Memorandum accounts are used to record assets or commitments which do not form part of the Institution'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 Institution.

- *Loan commitments:*

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

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

- *Assets in trust or under mandate:*

The Institution 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 due to their assets and liabilities result from operations and whose recognition and valuation is carried out in accordance with the provisions of the specific accounting criteria applicable to the Institution.



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Losses incurred by the Institution 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 Institution recognizes the trust estate.

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

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

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

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 Institution acts as the repurchasing party and borrower.

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

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



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- *Uncollected earned interest derived from non-performing 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 Institution, 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 Institution. 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.

(af) 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 consolidated 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.



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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	
Assets					
Negotiable financial instruments					
Fixed Income	\$ 99,866	\$ 142,845	\$ 1,419	\$ 244,130	Price provided by Valmer
Variable Income	721	-	1	722	Price provided by Valmer
Financial instruments to collect or sell					
Fixed Income	140,840	53,484	54	194,378	Price provided by Valmer
Variable Income	653	-	-	653	Price provided by Valmer
Derivatives for trading purposes					
Forwards		26,112	298	26,410	- Equity futures and forwards: Discounted cash flows - Options on bonds: Black 76 - Exchange Rate Options: Black 76, Local Volatility, Binomial Tree - Exchange Rate Options: Black 76, Local Volatility, Binomial Tree - Other interest rate options: Black 76, SABR and LGM - Linear interest rate products (Interest rate swaps, Call money swaps and FRA): Discounted cash flows. - Swaptions: Black and LGM - Constant maturity swaps: SABR
Options	232	6,927	1,017	8,176	- 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
Swaps		174,526	407	174,933	- 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
Derivatives for hedging purposes					
Swaps		6,647		6,647	- 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
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 - Exchange Rate 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 - Discounted cash flows. - Swaptions: Black and LGM
Options	294	25,738	4,903	30,935	- 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
Swaps		172,662	1,170	173,832	- 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
Derivatives for hedging purposes					



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	Level 1	Level 2	Level 3	Total	
Swaps		8,820		8,820	- 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
					- Discounted cash flows. - Swaptions: Black and LGM

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 on the historical evolution of the underlying that uses Monte Carlo simulation for its valuation.



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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.



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The amounts recorded in the statement of financial position as of December 31, 2022 corresponding to credit risk valuation adjustments of derivative positions amounted to \$(567) per CVA and \$957 per DVA, respectively. The impact recorded in the comprehensive income statement as of December 31, 2022 corresponding to said adjustments amounted to \$(208) and \$(67), respectively.

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:

	<u>Assets</u>	<u>Liabilities</u>
Balance at the beginning	\$ 3,122	\$ (1,334)
Changes in fair value recognized in profit and loss:		
Realized	239	(119)
Unrealized	(885)	18
Changes in fair value recognized in other comprehensive income:		
Purchased	1,395	-
Sales	(1,110)	-
Derecognition	(163)	146
Issuances	1,204	(4,847)
Settlements	-	-
Net inflows / outflows of Level 3	(605)	49
Others	-	-
Balance at the end	<u>\$ 3,197</u>	<u>\$ (6,087)</u>

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."



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a.5. Transfers between levels

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

Assets	From: to:	Level 1		Level 2		Level 3	
		Level 2	Level 3	Level 1	Level 3	Level 1	Level 2
Negotiable financial instruments							
Debt	\$	-	\$ -	\$ -	\$ 254	\$ -	\$ 357
Equity		-	-	-	1	-	-
Financial instruments to collect or sell							
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	\$	121,757	\$ -	\$ -	\$ 280	\$ -	\$ 889

Liabilities	From: to:	Level 1		Level 2		Level 3	
		Level 2	Level 3	Level 1	Level 3	Level 1	Level 2
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



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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.



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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.

Assets	Balance			Total	Valuation Techniques	Main input data
	Level 1	Level 2	Level 3			
Cash and cash equivalents	\$ 275,795			\$ 275,795	The carrying value is the best approximation of its fair value.	
Margin accounts		9,718		9,718	The carrying value is the best approximation of its fair value.	
Repurchase agreement receivables		26,324		26,324	The carrying value is the best approximation of its fair value.	
Investments in financial instruments (FICPI)	88,254	2,065		90,319	The carrying value is the best approximation of its fair value. (level 2)	
Loan portfolio with stage 1, 2 and 3 credit risk			1,507,551	1,507,551	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.	- Credit spread - Prepaid rate - Interest rates
Sundry debtors (staff loans)			14,978	14,978	Present Value Method (Discounted Future Cash Flows)	- Interest rates - Credit spread - Prepaid rate - Interest rates
Liabilities						
Traditional deposits						
Demand deposits			1,367,048	1,367,048	The carrying value is the best approximation of its fair value.	
Time deposits						
Of the general public		63	243,725	243,788	Present Value Method (Discounted Future Cash Flows)	- 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	The carrying value is the best approximation of its fair value. (level 2)	
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	Present Value Method (Discounted Future Cash Flows)	- Issuer credit risk - Prepaid rate - Interest rates



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Assets	Balance			Total	Valuation Techniques	Main input data
	Level 1	Level 2	Level 3			
Repurchase/resale agreements payable		185,263		185,263	The carrying value is the best approximation of its fair value.	
Collateral sold or pledged		54,734		54,734	The carrying value is the best approximation of its fair value.	
Other accounts payable						
Creditors on settlement of transactions	13,847			13,847	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		

(5) Cash and cash equivalents

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

Cash	\$	47,336
Banks		194,415
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 cash and cash equivalents		42
		<u>183,260</u>
Reclassification to liability to offset foreign currency purchases and sales ⁽²⁾		<u>92,535</u>
Total	\$	<u><u>275,795</u></u>

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, 2022.

	2022		
	MXN	US Dollars MXN Equivalent	Total
Deposits with foreign credit institutions	\$ 874	\$ 171,172	\$ 172,046
Central Bank	20,182	2,187	22,369
	<u>\$ 21,056</u>	<u>\$ 173,359</u>	<u>\$ 194,415</u>



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- (1) Currency 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:

	<u>2022</u>	
	<u>Balance in foreign currency (millions)</u>	<u>Equivalent in MXN</u>
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	-	7
CNY	-	6
PEN	1	15
JPY	-	3
Total		<u>\$ 135,363</u>
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	-	-
		<u>(227,898)</u>
Total *		<u>\$ (92,535)</u>

- (*) 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 Institution'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



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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 Institution maintains BREMS R for \$32,731, part of the DRM, which are recorded under "Investment in financial instruments," 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 \$9,718.

(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)

Instrument	2022			
	Acquisition cost	Interest accrued	Increase (decrease) by valuation	Carrying value
Unrestricted:				
Equity shares, net	\$ 769	\$ -	\$ (100)	\$ 669
	73	-	(25)	48
Sovereign debt Eurobonds	2,165	39	(95)	2,109
Fixed-rate government bonds	2,151	28	(8)	2,171
Promissory notes with returns settled at maturity	-	-	-	-
Federal Mexican Treasury Securities (CETES)	21,042	-	(80)	20,962
Federal Government Development Bonds (BONDES)	9,327	63	(4)	9,386
Corporate Eurobonds	76	-	-	76
Securitized bank debt certificates	916	8	(7)	917
Securitized debt certificates	6,690	54	3	6,747



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Exchangeable securitized debt certificates (CBICS)	1,178	17	(61)	1,134
Federal Government Development Bonds in UDIS (UDIBONOS)	2,125	6	2	2,133
Mexican Bank Saving Protection Bonds (BPAS)	23,834	713	(68)	24,479
Investment funds	-	-	-	-
Treasury notes	342	-	(11)	331
Total unrestricted	\$ 70,688	\$ 928	\$ (454)	\$ 71,162
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	\$ 242,992	\$ 3,164	\$ (1,304)	\$ 244,852

During 2022, the Institution recognized losses of \$835 in results, due to valuation of unrestricted securities (note 33).

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

Instrument	2022					Total acquisition cost
	Less than 1 month	Between 1 and 3 months	More than 3 months	No fixed term		
Unrestricted securities:						
Equity shares, net	\$ -	\$ -	\$ -	\$ 769	\$ 769	\$ 769
ADRS	-	-	-	73	73	73
Sovereign debt Eurobonds	-	331	1,834	-	2,165	2,165
Fixed-rate government bonds	-	205	1,946	-	2,151	2,151
Promissory notes with returns settled at maturity	-	-	-	-	-	-
CETES	-	169	20,873	-	21,042	21,042
CBICS	-	-	1,178	-	1,178	1,178
BONDES	-	131	9,196	-	9,327	9,327
Corporate Eurobonds	-	-	76	-	76	76
Securitized bank debt certificates	-	-	916	-	916	916
Securitized debt certificates	-	901	5,789	-	6,690	6,690
UDIBONOS	-	-	2,125	-	2,125	2,125
BPAS	-	3,796	20,038	-	23,834	23,834
Investment funds	-	-	-	-	-	-
Treasury notes	-	-	342	-	342	342
Total	\$ -	\$ 5,533	\$ 64,313	\$ 842	\$ 70,688	\$ 70,688



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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	\$ -	\$ -	\$ -	\$ -
Bono IPAB	-	-	-	-
Fixed-rate government bonds	-	-	-	-
BONDES	14,503	13	(10)	14,506
BPAS	14,777	466	(23)	15,220
CETES	12,559	-	(46)	12,513
Total collateral under securities lending	41,839	479	(79)	42,239
2022				
Instrument	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	1,068	30	-	1,098
CETES	-	-	-	-
Securitized debt certificates	392	3	(1)	394
Corporate Eurobonds	177	2	(20)	159
Treasury notes	330	2	(12)	320
Total other collateral	1,967	37	(33)	1,971
Total restricted securities by collateral granted	\$ 169,154	\$ 2,219	\$ (844)	\$ 170,529



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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)
Corporate Eurobonds	(127)	-	-	(127)
UDIBONOS	(50)	-	-	(50)
Securitized debt certificates	(50)	-	-	(50)
Total	\$ (4,032)	\$ (41)	\$ (4)	\$ (4,077)

During 2022, the Institution recognized losses of \$44 in results, due to the valuation of restricted securities coming from collaterals granted (note 33).

As of December 31, 2022, returns associated with the Institution's negotiable financial instruments recorded in the income for the year amounted to \$20,574 (note 31).



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b. Financial Instruments to Collect or Sell (FICS)

2022					
Instrument	Acquisition cost	Interest accrued	Increase (decrease) by valuation	Carrying value	
Unrestricted securities:					
Equity shares, net	\$ 524	\$ -	\$ 129	\$	653
CETES	-	-	-	-	-
Sovereign debt Eurobonds	21,852	286	(2,389)	-	19,749
Corporate Eurobonds	1,857	92	(216)	-	1,733
Fixed-rate government bonds	66,019	670	(5,617)	-	61,072
BONDES	-	-	-	-	-
BPAS	10,596	333	(21)	-	10,908
Securitized bank debt certificates	17	-	(2)	-	15
CEDES	-	-	-	-	-
Treasury	1,044	8	-	-	1,052
UMS	-	-	-	-	-
BREMS R ⁽¹⁾	32,709	95	(73)	-	32,731
UDIBONOS	-	-	-	-	-
Total unrestricted	134,618	1,484	(8,189)	-	127,913
Restricted ^(b.1.)	71,781	937	(5,600)	-	67,118
	\$ 206,399	\$ 2,421	\$ (13,789) ⁽²⁾	\$	195,031

(1) BREMS R part of the Monetary Regulation Deposit (note 5).

(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:

2022					
Instrument	Less than 1 month	Between 1 and 3 months	More than 3 months	No fixed term	Total Acquisition cost
Unrestricted:					
Equity shares, net	\$ -	\$ -	\$ -	\$ 524	\$ 524
CETES	-	-	-	-	-
Sovereign debt Eurobonds	-	-	21,852	-	21,852
Corporate Eurobonds	-	-	1,857	-	1,857
BONDES	-	-	-	-	-
BPAS	-	-	10,596	-	10,596
Securitized bank debt certificates	-	-	17	-	17
Securitized debt certificates	-	-	-	-	-
BREMS R	-	-	32,709	-	32,709
Treasury	-	1,044	-	-	1,044
Fixed-rate government bonds	-	2,870	63,149	-	66,019
Total unrestricted	\$ -	\$ 3,914	\$ 130,180	\$ 524	\$ 134,618



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

Instrument	2022			
	Acquisition cost	Interest accrued	Increase (decrease) by valuation	Carrying value
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
Fixed-rate government bonds	61,995	728	(5,188)	57,535
Securitized debt certificates	2,881	39	(167)	2,753
Securitized bank debt certificates	1,580	20	(158)	1,442
Corporate Eurobonds	194	2	(7)	189
Collateral under repurchase/resale agreements	\$ 66,650	\$ 789	\$ (5,520)	\$ 61,919
Treasury bills	-	-	-	-
Total restricted	\$ 71,781	\$ 937	\$ (5,600)	\$ 67,118

As of December 31, 2022, the returns associated with all the financial instruments to collect or sell by the Institution recognized in the results of the year amounted to \$12,504 as profit (note 31).

During 2022 the amount of expected credit losses from impairment of financial instruments to collect or sell recognized in income was \$43,868.

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	500	3	503
Corporate Eurobonds	10,731	177	10,908
Treasury	5,835	23	5,858
CETES	1,394	-	1,394
CBICS	-	-	-
UDIBONOS	11,826	25	11,851
Total to collect principal and interest	92,823	1,100	93,923
Allowance for expected loan losses for investments in financial instruments to collect principal and interest (securities)			(24)
Total to collect principal and interest, net			\$ 93,899



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(1) Reconciliation between the final and initial balance of the FICPI allowance for loan losses.

	2022
Balance at the beginning	\$ -
Initial recognition in other comprehensive income	4
Effect on income for the year	20
Balance at the end	<u>\$ 24</u>

As of December 31, 2022, the returns associated with all of the Institution's Financial Instruments to Collect Principal (FICPI) and Interest recognized in income for the year amounted to \$4,793 (note 31).

During 2022 the amount of expected credit losses due to impairment of financial instruments to collect principal and interest, recognized in income was \$24.

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 Institution's global capital.

As of December 31, 2022, the Institution does not maintain investments that come from unobservable markets.



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(8) Repurchase/resale agreements and securities lending-

a. Repurchase agreement receivables

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

Instrument	2022		
	Asset	Liability	
	Receivable under repurchase agreement	Collateral sold or pledged	Debit difference
BONDES	\$ 19,640	\$ -	\$ 19,640
Fixed-rate government bonds	918	-	918
BPAS	4,765	-	4,765
CETES	1,001	-	1,001
Total	\$ 26,324	\$ -	\$ 26,324

b. Creditors on repurchase/resale agreements

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

Instrument	2022
BONDES	\$ 16,444
Fixed-rate government bonds	73,568
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	\$ 187,057

As of December 31, 2022, interest (premiums) receivable recorded by the Institution were \$4,024 presented in the consolidated income statements under "Interest income," and interest (premiums) payable recorded by the Institution under "Interest expense" for the year ended December 31, 2022, were (\$20,524) (see note 31).



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

Instrument	2022		
	Memorandum accounts		Liability
	Collateral received	Collateral received and sold or pledged	Collateral sold or pledged
Securities lending:			
Fixed-rate government bonds	\$ 21,843	\$ 20,315	\$ 19,808
UDIBONOS	6,221	6,221	6,221
CETES	13,336	13,336	13,336
CBICS	-	-	-
Equity shares, net	65	65	65
	<u>41,465</u>	<u>39,937</u>	<u>39,430</u>

Instrument	2022		
	Memorandum accounts		Liability
	Collateral received	Collateral received and sold or pledged	Collateral sold or pledged
Repurchase agreements:			
BONDES	\$ 19,641	\$ 8,642	\$ 8,643
Fixed-rate bonds	917	917	918
BPAS	4,757	4,757	4,742
CETES	1,000	1,000	1,001
CBICS	-	-	-
	<u>26,315</u>	<u>15,316</u>	<u>15,304</u>
Other collateral received	<u>9,376</u>	-	-
Total	<u>\$ 77,156</u>	<u>\$ 55,253</u>	<u>\$ 54,734</u>

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 \$(179), see note 31.

As of December 31, 2022, the Institution 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 Institution 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.



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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		Net position
	Assets	Liabilities	Assets	Liabilities	
Futures	\$ -	\$ -	\$ -	\$ -	\$ -
Forwards long position	-	-	-	-	-
Swaps	87,306	89,479	6,647	8,820	(2,173)
	\$ 87,306	\$ 89,479	\$ 6,647	\$ 8,820	\$ (2,173)

b. Future and forward contracts – As of December 31, 2022, the Institution executed transactions in organized markets (Mex-Der and Chicago) obtaining a loss of \$(799), distributed by Rates of \$(142), Foreign Exchange of \$(995), Indices of \$358 and Securities of \$(19).

At the end of the 2022 fiscal year, the open future and forward contracts are shown below:

Trading:

Type of transaction	Underlying	Sales		Purchases		Net position
		Receivable	Contract value	Contract value	Payable	
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	\$ -



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Type of transaction	Underlying	Sales		Purchases		Net position
		Receivable	Contract value	Contract value	Payable	
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		Net position
		Receivable	Contract value	Contract value	Payable	
Forwards	US dollar	\$ -	\$ -	\$ -	\$ -	\$ -

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
				<u>8,176</u>
Sales	OTC Options ⁽¹⁾	US dollar	104,829	4,866
		Interest rates	120,826	2,567
		Equity and indexes	25,333	23,208
	OM Options ⁽²⁾	Equity and Indexes	6,762	294
				<u>\$ 30,935</u>

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

⁽²⁾ OM (Organized Markets)



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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)
Stocks	Peso		3,745	40	363	(323)
	US Dollar		1,717	67	186	(119)
				107	549	(442)
CDS	US Dollar		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 institution entered into Nominal Interest Rate Swap contracts in pesos with various institutions, the current inventory shows agreed rates between 3.50% and 20.26%, annual.



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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)

Cash Flow Hedge:

Underlying	Currency	Contract value receivable	Contract value payable	Receivable	Payable	Net position
Currency	Peso	\$ -	\$ -	\$ -	\$ -	\$ -
	US Dollar	-	-	-	-	-
	GBP	-	-	-	-	-
	Euro	-	-	-	-	-
			Notional Amount			
Interest rates	Peso ⁽¹⁾					
	US Dollar					
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.



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

	<u>Acquisition cost</u>	<u>Interest accrued</u>	<u>Carrying value</u>
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	9	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
Mizuho Bank México IBM	3	-	3
Morgan Stanley & CO	224	1	224
Morgan Stanley Capital	5	-	5
MUFG Bank México IBM	336	1	338
Natixis	1,315	5	1,320
Scotiabank Inverlat	199	2	200
Standard Chartered	6	-	6
Collateral received in cash in derivative transactions	<u>12,202</u>	<u>42</u>	<u>12,245</u>
Collateral received in cash other than derivative transactions	<u>1,193</u>	<u>-</u>	<u>1,193</u>
	<u>\$ 13,395</u>	<u>\$ 42</u>	<u>\$ 13,438</u>

As of December 31, 2022, the Institution has recorded collateral received in memorandum accounts “Collateral received by the Institution” 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).



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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
	<u>\$ 1,755</u>	<u>\$ 1,711</u>	<u>\$ 250</u>	<u>\$ 206</u>

f.1. Embedded options (underlying)

Trading:

		Underlying	Nominal Amount	Fair Value
Purchases	OTC Options	US dollar	\$ 865	\$ 11
		Interest rates	19,649	169
		Equity and Indexes	-	18
			<u>20,514</u>	<u>198</u>
Sales	OTC Options	US dollar	1,053	\$ 64
		Interest rates	1,732	1
		Equity and Indexes	2,242	87
			<u>5,027</u>	<u>152</u>
			<u>\$ 25,541</u>	

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
			<u>1,035</u>	<u>1,039</u>	<u>(4)</u>
Interest rate	Peso	8,850	260	266	(6)
	US dollar	261	262	254	8
			<u>522</u>	<u>520</u>	<u>2</u>
		10,132	\$ 1,557	\$ 1,559	\$ (2)



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f.3 Forward embedded (underlying)

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

According to the structured banking bonds issuance programs, as of December 31, 2022, the Institution embedded options and swaps for a nominal value of \$25,541 and \$10,132 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 31) 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.



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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 been 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 area 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.



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As of December 31, 2022, the Institution 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 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/TIE	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)
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 securities	-
Hedge of corporate bonds and M's bonds (1)	Fixed rate in USD bonds/	19 IRS V/F	2027	657	350	(319)	Investments in securities	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



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- (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



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	Stage 1	Stage 2	Stage 3	Total
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	287,233	9,736	6,401	303,370
Low income	4,098	465	231	4,794
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



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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 Institution's obligation under the financing granted by the Central Bank 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							Total
	Distressed			Non-distressed				
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3		
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	-	-	-	-	-	-	-	-
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	-	-	-	-	-	-	-	-



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		2022						
		Distressed			Non-distressed			Total
		Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	
	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	-	-	-	-	-	-	-
Ordinary portfolio		-	-	-	-	-	-	-
	MXN	-	-	-	-	-	-	-
	Foreign currency	-	-	-	-	-	-	-
	UDIS	-	-	-	-	-	-	-
	UMA	-	-	-	-	-	-	-
	VSM	-	-	-	-	-	-	-
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



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

	Amount of restructured and renewed portfolio during 2022
	<u>Commercial Loans</u>
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
	<u>Government Entities</u>
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)	-



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	<u>Consumer loans</u>	
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)		-
		<u>Mortgage loans</u>
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 Institution has real estate collateral of \$16,652, and securities collateral of \$219, for restructured commercial loans.



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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			Total
	1 to 5 years	6 to 15 years	More than 15 years	
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 loan portfolio recognized at its fair value amounts to \$5,100, which is made up of principal of \$5,184, accrued interest not collected for \$18 and a valuation of \$(102).

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



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

	Amount
Balance at the end (December 31, 2021)	\$ 22,699
IFRS 9 implementation	6,188
Balance at the end December 31, 2021 (IFRS 9)	<u>28,887</u>
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	(17,042)
Cash settlements	(10,117)
Restructured	(51)
Reductions (<i>Quitas</i>)	(4,435)
Write-offs	(26,440)
Balance at the end (December 31, 2022)	<u>\$ 23,848</u>

Guarantees received are broken down as follows:

	Amount of guarantees
Nature of guarantee:	
Guarantor (<i>Avalistas</i>)	\$ 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	<u>\$ 2,844,836</u>



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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	6,103	304	6,407
	78,879	945	79,824
Total, consumer loans			
Mortgage loans	27,922	84	28,006
Total, see note 31	\$ 175,231	\$ 2,114	\$ 177,345



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

Sector	2022	
	Amount	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	.15%
Other overdue debts	-	.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		Stage 2		Stage 3	
	No Contracts	Amount	No Contracts	Amount	No Contracts	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



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

Originating trust	Special CETES			Special "C" CETES		
	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 Institution.
- Establish the criteria for determining whether individuals and/or corporations act in unison and are integrated into the same business group or consortium, to identify potential accumulated risk and the maximum limit of financing to be granted.

Maximum financing limit

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



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Risk diversification

As of December 31, 2022, the Institution maintains the following credit risk operations in compliance with the general risk diversification rules established in the accounting Criteria and applicable to asset and liability transactions, as follows:

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

(12) Allowance for loan losses

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

2022						
Allowances						
Risk category	Portfolio Exposure					Total allowances
	Rating Base	Commercial	Consumer	Mortgage		
A1	\$ 1,157,766	\$ 1,733	\$ 3,392	\$ 231	\$	5,356
A2	73,235	474	1,418	24		1,916
B1	88,453	173	2,901	42		3,116
B2	46,601	119	2,000	70		2,189
B3	30,422	429	1,312	33		1,774
C1	42,060	699	2,568	224		3,491
C2	30,078	342	3,223	327		3,892
D	24,987	1,786	3,305	2,024		7,115
E	20,037	4,676	8,831	314		13,821
	1,513,639	10,431	28,950	3,289		42,670
Additional allowance	-	1,365	5,553	-		6,918
Total	\$ 1,513,639	\$ 11,796	\$ 34,503	\$ 3,289	\$	\$ 49,588



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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 past due 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 207.93%, respectively, of the stage 3 portfolio.

The allowance for loan losses as of December 31, 2022 amounts to \$49,588, which includes an allowance of \$42,670 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:

	<u>2022</u>
Commercial loans:	
Commercial or business activity	\$ 10,916
Financial entities	336
Government entities	544
	<hr/>
	11,796
Consumer loans	34,503
Mortgage loans	3,289
	<hr/>
Total, loan allowances	\$ 49,588

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

	<u>2022</u>		
	<u>Stage 1-3</u>	<u>Additional</u>	<u>Total</u>
Balance as of December 31, 2021	\$ 34,810	\$ -	\$ 34,810
+/- (effect of change in criteria) *	8,052	-	8,052
Adjusted opening balance	42,862	-	42,862
Allowances charged to the year's earnings ⁽¹⁾	30,506	6,918	37,424
Applications and write-offs of the year	(30,611)	-	(30,611)
Exchange rate fluctuations	(67)	-	(67)
Other expenses	(20)	-	(20)
	<hr/>		
Balance at the end as of December 31, 2022	\$ 42,670	\$ 6,918	\$ 49,588



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* 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 \$(35,619).

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, etc.

(13) Securitization transactions-

Mortgage portfolio securitizations

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

Irrevocable Trusts 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 Institution'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 Institution (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.



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– Irrevocable Trust Agreement for the Issuance of Securitized Debt Certificates

This agreement was entered into by and between the Institution (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 Institution (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 (<i>constancia</i>)	635
Loan to value %	9.7%
Total, cash flow received after assignment	\$ 5,733



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(14) Other accounts receivable, net-

Other accounts receivable as of December 31, 2022 are as follows:

	<u>2022</u>
Debtors from settlement of transactions ^(a)	\$ 107,474
Loans to officers and employees ^(b)	17,289
Sundry debtors	4,993
Collateral provided through OTC derivatives ^(c)	6,415
Other	3,389
	<u>139,560</u>
Allowance for uncollectible accounts	<u>(371)</u>
	<u>\$ 139,189</u>

(a) Receivables from pending to be settle transactions as of December 31, 2022, are as follows:

Currency ^(a1)	\$ 96,157
Investment in securities	5,652
Derivatives	5,665
	<u>107,474</u>

^(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 Institution.



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(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 Interam, 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
Bank of America 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



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(15) Foreclosed assets, net-

Foreclosed assets account balance as of December 31, 2022 are as follows:

	<u>2022</u>
Buildings	\$ 2,579
Land	971
Securities and rights	12
	<u>3,562</u>
Allowance for derecognition	<u>(1,951)</u>
Total	\$ 1,611

During the year 2022, there are no assets foreclosed for the Institution's use.

Changes in the reserve for derecognition of foreclosed assets are summarized below for the year ended December 31, 2022.

	<u>2022</u>
Balance as of December 31, 2021	\$ 2,665
+/- (effect of change in criteria) *	<u>(423)</u>
Adjusted opening balance	2,242
Reserves created in:	
"Other operating income"	189
Reserve applications for foreclosure sales and others	<u>(480)</u>
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.

Fully reserved foreclosed assets as of December 31, 2022 are presented below.

	<u>2022</u>
Buildings – Foreclosed value	\$ 1,155
Land – Foreclosed value	521
Securities and rights – Foreclosed value	12
	<u>1,688</u>
Total	\$ 1,688



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(16) Property, plant and equipment, net-

Property, plant and equipment as of December 31, 2022 is as follows:

	<u>2022</u>
Furniture and equipment	\$ 22,163
Office buildings	19,406
Installation costs	22,488
Land	5,528
	<u>69,585</u>
Less- Accumulated depreciation and amortization	<u>(33,296)</u>
Total	<u>\$ 36,289</u>

For the year ended December 31, 2022, the amount charged to the year's results for depreciation is \$2,478 and for amortization is \$1,924.

(17) Leased assets (rights of use) and lease liabilities-

The Institution 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 Institution 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:

	<u>Real Estate 2022</u>
Balance as of January 1, 2022	\$ 4,246
Accumulated depreciation	(2,147)
Additions	2,915
Derecognition	<u>(5)</u>
Net balance of the right-of-use asset	<u>\$ 5,009</u>



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Lease liabilities

The amount of its commitments as of December 31, 2022 amounts to \$5,139.

Amounts recognized in results:

	<u>2022</u>
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.

(18) Permanent 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:

	<u>2022</u>	
	<u>Share</u>	
	%	<u>Amount</u>
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	Varios	129
Total		<u>\$ 1,183</u>

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 entities."



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For the year ended December 31, 2022, the Institution recognized the participation in results of associates for \$268.

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

The value of the Institution's contribution and the changes of its reserve in Trust 1729 as of December 31, 2022 is shown below:

Item	2022
Total, contributions	\$ 747
Associated reserve	(270)
Net value	<u>477</u>
Allowance for derecognition	<u>(136)</u>
Net value	<u>\$ 341</u>

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.

(19) 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	9,117
Legal, tax and labor contingencies	2,314
Other	<u>7,161</u>
Total	<u>\$ 125,351</u>



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(20) Intangible assets (net)-

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:

	<u>2022</u>
Software investment	\$ 23,542
Cumulative amortization	(19,091)
	<u>\$ 4,451</u>

For the year ended December 31, 2022, the amortization amount charged to the year's results is \$1,668.

(21) Traditional deposits-

As of December 31, 2022, traditional deposits is made up as follows:

	<u>2022</u>
Demand deposits ^(a) :	
Demand deposits	\$ 1,367,045
Time deposits:	
General public	243,521
Mercado de dinero	4,110
Negotiable instruments issued ^(b)	88,819
Inactive deposit global account	6,716
	<u> </u>
Total	<u>\$ 1,710,211</u>

^(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:



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Description of main programs

As of December 31, 2022, the Institution 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 Institution generated an additional liquidity requirement of USD 7,930 million. As of December 31, 2022, Investment in liquid assets amounted to USD 10,941 million, resulting in a surplus of USD 3,011 million as of said date.

(22) Interbank and other loans-

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		



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	2022		
			Average Term (years)
Long term:			
FIRA	\$ 6,860	9.15	3
Central Bank	23,768	6.88	2
Fondo de Operación y Financiamiento			
Bancario a la Vivienda (FOVI)	27	12.99	25
	<u>\$ 30,655</u>		

	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
	<u>\$ 1,410</u>		

			Average Term (years) 2022
Long term:			
ICO	\$ 1,207	3.83	2
FIRA	772	5.00	3
	<u>\$ 1,979</u>		

	Total amounts 2022
Short term	\$ 6,528
Long term	32,634
	<u>\$ 39,162</u>



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The Institution 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 Institution 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.

(23) Labor obligations-

The balance as of December 31, 2022 is as follows:

	<u>2022</u>
Employee participation in profits	\$ 3,389
Net defined benefit liability	3,752
Plan Porvenir recoveries receivable	(148)
	<hr/>
Total	\$ 6,993
	<hr/>

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:

	<u>Other retirement benefits</u>						
	<u>Pension plan and seniority premium</u>	<u>Comprehensive medical service</u>	<u>Benefit upon death</u>	<u>Retiree sports club</u>	<u>Porvenir Plan Bonus</u>	<u>Statutory severance</u>	<u>Total</u>
Defined benefit obligations	\$ (17,545)	\$ (29,348)	\$ (1,942)	\$ (88)	\$ (412)	\$ (1,982)	\$ (51,317)
Plan assets	15,213	30,143	1,876	-	333	-	47,565
	<hr/>						
Net defined benefit (liabilities)	\$ (2,332)	\$ 795	\$ (66)	\$ (88)	\$ (79)	\$ (1,982)	\$ (3,752)
	<hr/>						



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As of December 31, 2022, defined benefit obligations are as follows:

	Pension plan and seniority premium	Comprehensive medical service	Benefit upon death	Retiree sports club	Porvenir Plan Bonus	Statutory severance	Total
Initial balance	\$ 15,297	\$ 31,116	\$ 1,802	\$ 112	\$ 235	\$ 1,925	\$ 50,487
Labor cost of service	98	955	8	5	48	(102)	1,012
Financial cost	1,513	2,974	181	10	31	184	4,893
Actuarial losses and (gains) in the period	2,161	(4,483)	(28)	(34)	120	297	(1,967)
Benefits paid	(1,524)	(1,214)	(21)	(5)	(22)	(322)	(3,108)
Defined benefit obligations at year's end	\$ 17,545	\$ 29,348	\$ 1,942	\$ 88	\$ 412	\$ 1,982	\$ 51,317

As of December 31, 2022, Plan Assets ("PA") are as follows:

	Pension plan and seniority premium	Comprehensive medical service	Benefit upon death	Retiree sports club	Porvenir Plan Bonus	Statutory severance	Total
PA at the beginning of the year	\$ 12,751	\$ 33,929	\$ 1,609	\$ -	\$ 349	\$ -	\$ 48,638
Contributions made by the entity	782	-	37	-	-	-	819
Expected return of PA	1,240	3,268	170	-	34	-	4,712
Actuarial earnings (losses) generated in the period	(930)	(2,946)	81	-	(28)	-	(3,823)
Benefits paid	(1,524)	(1,214)	(21)	-	(22)	-	(2,781)
Transfer of PA	2,894	(2,894)	-	-	-	-	-
PA at the end of the year	\$ 15,213	\$ 30,143	\$ 1,876	\$ -	\$ 333	\$ -	\$ 47,565



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For the year ended December 31, 2022, the net income (cost) for the period is made up as follows:

	Pension plan and seniority premium	Comprehensive medical service	Benefit upon death	Retiree sports club	Porvenir Plan Bonus	Statutory severance	Total
Labor cost of service:							
Current Service	\$ (98)	\$ (955)	\$ (8)	\$ (5)	\$ (48)	\$ 102	\$ (1,012)
Interest costs of defined benefit obligations	(1,513)	(2,974)	(181)	(10)	(31)	(184)	(4,893)
PA interest income	1,240	3,268	170	-	-	-	4,712
Gains (losses) of defined benefit obligations	(302)	421	(10)	2	8	(124)	(5)
Gains (losses) of PA	(27)	(176)	1	-	(1)	-	(203)
Income (cost) of defined benefits	\$ (700)	\$ (416)	\$ (28)	\$ (13)	\$ (38)	\$ (206)	\$ (1,401)

As of December 31, 2022, remeasurements of the defined benefit net asset (liability) recognized in OCI is as follows:

	Pension plan and seniority premium	Comprehensive medical service	Benefit upon death	Retiree sports club	Porvenir Plan Bonus	Statutory severance	Total
Reconciliation of actuarial (losses) gains							
Initial balance of gains (losses) on the obligation	\$ 4,939	\$ (1,438)	\$ 200	\$ (21)	\$ (167)	\$ 813	\$ 4,326
(Losses) gains on the obligation	2,163	(4,481)	(28)	(34)	120	297	(1,963)
OCI capitalization *							
Recycling of remeasurements on the obligation	(302)	421	(10)	2	8	(124)	(5)
Initial balance (losses) gains in return on assets	6,800	(5,498)	162	(53)	(39)	986	2,358



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	Pension plan and seniority premium	Comprehensive medical service	Benefit upon death	Retiree sports club	Porvenir Plan Bonus	Statutory severance	Total
Initial balance (losses)							
gains in return on assets	(70)	(231)	8	-	1	-	(292)
Gains (losses) in the return of PAs	930	2,946	(81)	-	28	-	3,823
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	2,539	(72)	-	28	-	3,328
Ending balance of net (losses) gains recognized in OCI	\$ 7,633	\$ (2,959)	\$ 90	\$ (53)	\$ (11)	\$ 986	\$ 5,686

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:

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%



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(24) Subordinated debt-

As of December 31, 2022, they are analyzed as follows:

	<u>2022</u>
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

(25) Related parties-

Material balances and transactions with related parties in accordance with the provisions of FRS C-13 "Related parties" are as follows:

	<u>2022</u>
Banco Bilbao Vizcaya Argentaria, S. A.:	
Derivative financial instruments ⁽¹⁾	\$ (736)
Repurchase/resale agreements payable ⁽¹⁾	3,252
BBVA Seguros México, S.A. de C.V.:	
Fees collected ⁽²⁾	\$ 3,036
Insurance premium paid ⁽²⁾	(193)
BBVA Pensiones México, S.A. de C.V.:	
Investment in securities ⁽¹⁾	\$ 2,156
BBVA Asset Management México, S.A. de C.V.:	
Fees collected ⁽²⁾	\$ 4,357



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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
Expenses:	
Systems processing and development ⁽²⁾	\$ 3,933
<hr/>	
BBVA Leasing México, S. A. de C. V.:	
Deposits ⁽¹⁾	\$ 235
Loan portfolio ⁽¹⁾	2,600
<hr/>	
Income:	
Interest ⁽²⁾	\$ 107
Administrative services fees ⁽²⁾	48
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⁽¹⁾ Balances of accounts payable/receivable as of December 31, 2022.

⁽²⁾ It relates to the income or (expense) recorded in the income statement for years ended on December 31, 2022.

As of December 31, 2022, there are other related party transactions that are regarded as immaterial and have not been disclosed.

(26) Income tax and employee profit sharing-

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

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

A reconciliation as of December 31, 2022 of the statutory income tax rate and the effective rates expressed as a percentage of income before equity in the results of unconsolidated subsidiaries and associates and income tax, which is the tax incurred by the Institution, is as follows:

	2022	
	Tax	Rate
Statutory rate	\$ 30,934	30.00%
Increase (reduction from):		
Non-deductible expenses	409	0.40%
Effects of annual inflation	(7,953)	(7.71)%
Tax payments and provisions agreed with tax authorities during the year, net	4,397	4.26%
Other accruals	(935)	(0.91)%
	<hr/>	
Effective rate	\$ 26,852	26.04%
	<hr/>	



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Other tax matters:

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

	2022
Net after-tax profit account	\$ 191,844
Capital contributions account	87,754

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

	2022	
	Temporary differences	Deferred Income
	Basis	tax
<u>Deferred tax assets:</u>		
Allowance for loan losses (not deducted)	\$ 58,997	\$ 17,699
Fees and interest charged in advance	9,512	2,854
Provisions	11,429	3,429
Other assets	8,632	2,590
Foreclosed assets	3,105	932
Valuation of financial instruments to collect or sell (stockholders' equity)	13,196	3,959
Valuation of derivative financial instruments to hedge cash flows (stockholders' equity)	2,047	614
Reserve of pension	2,522	756
Deferred employee profit sharing	109,358	6,125
Total, assets	218,798	38,958
<u>Deferred tax liabilities:</u>		
Market valuation (results)	\$ 4,345	\$ 1,304
Pre-maturity of derivative financial transactions	(9,357)	(2,807)
Other liabilities	7,882	2,365
Total liabilities	\$ 2,870	\$ 862
Net deferred assets	\$ 215,928	\$ 38,096
Charge in year's results		\$ 6,267
Net charge in OCI		\$ 1,808



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To determine the accrued and deferred profit-sharing, as a result of the labor reform of July 1, 2021, compliance with the provisions of the Federal Labor Law and the Income Tax Law is required. Therefore, the following should be considered in said determination.

- a) The Institution shall apply 10% to the 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 \$3,455, 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 5.6%.

The Institution 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:



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	2022	
	Temporary differences	
	Basis	Deferred employee profit sharing
	<hr/>	<hr/>
<u>Deferred tax assets:</u>		
Allowance for loan losses (not deducted)	\$ 58,997	\$ 3,304
Fees and interest charged in advance	9,512	533
Provisions	11,429	640
Other assets	5,292	297
Foreclosed assets	3,105	174
Valuation of financial instruments to collect or sell (stockholders' equity)	13,196	739
Valuation of derivative financial instruments to hedge cash flows (stockholders' equity)	2,047	115
Reserve of pension	2,522	141
	<hr/>	<hr/>
Total, assets	106,100	5,943
	<hr/>	<hr/>
<u>Deferred tax liabilities:</u>		
Market valuation (results)	4,345	243
Pre-maturity of derivative financial transactions	(9,357)	(524)
Other liabilities	1,754	99
	<hr/>	<hr/>
Total liabilities	(3,258)	(182)
	<hr/>	<hr/>
Net deferred assets	\$ 109,358	\$ 6,125
	<hr/>	<hr/>
Charge in year's results		\$ 863
Net charge in OCI		\$ 5,262

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.



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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.

(27) Stockholders' Equity-

(a) Structure of capital stock

The Institution's capital stock as of December 31, 2022 is as follows:

	Number of shares at Par Value of MXN 0.28		
	Capital stock	Issued shares Unsubscribed	Paid-in Capital
Series "F"	\$ 9,107,142,859	(1,370,063,922)	\$ 7,737,078,937
Series "B"	8,749,999,999	(1,316,335,923)	7,433,664,076
	\$ 17,857,142,858	(2,686,399,845)	\$ 15,170,743,013

	Historical amount		
	Capital stock	Issued shares Unsubscribed	Paid-in Capital
Series "F"	\$ 2,550	\$ (384)	\$ 2,166
Series "B"	2,450	(368)	2,082
Subtotal	\$ 5,000	\$ (752)	4,248
Reordering of capital adjustments			10,971
Adjustment to pesos as of December 2007			8,924
Total			\$ 24,143

On February 28, 2022, pursuant to an General Ordinary Shareholders' Meeting, the distribution of dividends up to the amount of \$49,344 was authorized, from the "Results from previous years," of which \$19,860, \$9,930 and \$19,554 were paid to shareholders on May 25, September 21 and December 13, 2022 at a rate of \$1.30909870287709, \$0.654549351438546 and \$1.28892829990225 pesos per share, respectively.



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(b) Comprehensive income

Comprehensive income for the year ended December 31, 2022, amounted to \$71,376, 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 Institution 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

The Banking Law requires the Institution to set aside 10% of its profits annually to establish capital reserves, up to the amount of paid-in capital stock. As of December 31, 2022, the Institution has reached the required reserve amount with respect to the historical paid-in capital stock.

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

On 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 (ESC, for its acronym in Spanish), 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) 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.



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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 non-performing 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 2015, the applicable weights for reports RC-01, RC-02, RC-03 and RC-04 were modified. In addition, in the RC on share positions (RC-05) weights for the general market risk are changing. The portfolio diversification calculation is omitted using instead 8% of the market specific risk, and finally the calculation for 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).



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- *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



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Assets at risk are broken down as follows:

– *Assets subject to market risk:*

Item	Risk-weighted assets	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	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



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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 35.

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>.

(28) Foreign currency position-

Central Bank regulations provides for standards and limits for banks to keep long or lending (short or borrowing) positions in foreign currencies equivalent to a maximum of 15% of the Institution's core capital. As of December 31, 2022, the Institution kept an exchange rate risk position within the mentioned limit.

As of December 31, 2022, the Institution 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:

	Figures in millions 2022
Assets	21,967
Liabilities	(21,044)
Net assets position in foreign currency	<u>923</u>
Net assets position in MXN equivalent	<u>\$ 18,019</u>



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As of February 24, 2023, the closing exchange rate determined by the Central Bank was MXN 18.3998 per US dollar.

Pursuant to the provisions of the Central Bank, the position as of December 31, 2022 was USD 198 million long, respectively (unaudited), which includes foreign currency option positions, and excludes non-computable assets and liabilities.

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

(29) 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, respectively, as follows:

	UDIs in millions 2022
Assets	3,348
Liabilities	(4,898)
Net (liabilities) position in UDIs	(1,550)
Net (liabilities) position in MXN (nominal value)	\$ (11,853)

As of February 27, 2023, the date of issuance of the financial statements, the last known UDI exchange rate was MXN 7.738086 per UDI.

(30) 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 Institution to IPAB for insurance deposit amounted to \$7,024.



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(31) Financial margin-

As of December 31, 2022, the main items comprising the financial margin were as follows:

	2022		
	MXN	US Dollars MXN equivalent	Total
<u>Interest income:</u>			
Interest and returns on loan portfolio (note 10)	\$ 172,003	\$ 3,228	\$ 175,231
Interest and return on securities (note 7(a), 7(b) and 7(c))	35,580	2,291	37,871
Interest on cash and cash equivalents	4,558	3,049	7,607
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	160	2,114
Other	569	-	569
Total, interest income	221,569	9,008	230,577

	2022		
	MXN	US Dollars MXN equivalent	Total
<u>Interest expense:</u>			
Interest on deposits	(28,177)	(2,730)	(30,907)
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	(607)	-	(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))	(20,703)	-	(20,703)
Expenses on loan originations	(1,561)	-	(1,561)
Other	(1,788)	(58)	(1,846)
Total, Interest expense	(57,390)	(6,394)	(63,784)
Financial margin	\$ 164,179	\$ 2,614	\$ 166,793



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(32) Commissions and fee received and paid-

As of December 31, 2022, the main items for which the Institution recorded commissions and fee income in the consolidated statement of income were as follows:

	<u>2022</u>
Credit cards and debit cards	\$ 36,140
Bank fees	7,834
Investment funds	4,354
Insurance	2,810
Other	10,361
	<hr/>
Total	\$ 61,499

During 2022, the amount of revenues earned by the Institution in trust operations amounted to \$509.

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:

	<u>2022</u>
Credit cards	\$ (14,433)
Effective credit card reward points	(3,783)
Promotion fund collateral	(1,332)
Cash management and fund transfers	(1,572)
Credit placement	(1,102)
Appraisals	(413)
Sale of foreclosed assets	-
Purchase sale of securities	(171)
Other	(3,793)
	<hr/>
Total	\$ (26,599)



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(33) Financial intermediation income-

As of December 31, 2022, the main items comprising the financial intermediation income were as follows:

	<u>2022</u>
Valuation result:	
Derivatives for trading purposes	\$ (2,022)
Derivatives for hedging purposes	(39)
Embedded derivatives	269
Currency	13,697
Investments in financial instruments (note 7.a and 7.a.3)	(879)
Purchase-sale result:	
Derivatives for trading purposes	481
Derivatives for hedging purposes	25
Embedded derivatives	432
Currency	-
Investments in securities	(411)
Total	<u>\$ 11,553</u>

(34) Information by segment-

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



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Below 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	Other Segments
Financial margin	\$ 166,793	\$ 105,242	\$ 43,399	\$ 7,062	\$ 11,090
Allowance for loan losses	(35,619)	(34,008)	(1,611)	-	-
financial margin adjusted for allowance for loan losses	131,174	71,234	41,788	7,062	11,090
Fee income, net	34,900	17,591	16,060	(298)	1,547
Intermediation result	11,553	3,724	1,236	6,931	(338)
Other operating income	(6,830)	(723)	177	144	(6,428)
Total operating income (expenses)	170,797	\$ 91,826	\$ 59,261	\$ 13,839	\$ 5,871
Administrative and promotional expenses	(67,683)				
Operating income	103,114				
Equity in income of associates	268				
Income before income tax	103,382				
Income tax	(26,852)				
Income before non-controlling interest	76,530				
Non-controlling interest	-				
Net income	\$ 76,530				

(35) Risk management and derivative transactions (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.



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

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

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

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



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

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.



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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.



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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



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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.



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<u>Portfolio *</u>	<u>Percentage of expected loss</u>
Commercial	0.5%
Consumer	5.1%
Mortgage	0.4%

<u>Portfolio *</u>	<u>PD</u>	<u>LGD</u>
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 Institution 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 Institution 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.



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

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

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

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

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.

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

Probability of Default

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

Consequently, for the Institution, a transaction/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.



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

Loss Given Default

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

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

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

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.



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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.



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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	-
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	-
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%



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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	\$ -
A2	3,852	3,852	16.20%	4.60%	3,852	-
B1	4,700	4,700	15.10%	6.50%	4,700	-
B2	5,591	5,591	16.50%	8.40%	5,591	-
B3	1,847	1,847	16.10%	12.70%	1,847	-
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%	-	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 Institution 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.



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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.



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Portfolio	Estimated Economic Value Sensitivity (EVS)			
	(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%

Portfolio	12-Month Projection of Financial Margin Sensitivity (FMS)			
	(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%



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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



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	<u>1 day VaR</u>		<u>10 days VaR</u>	
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.

Quarterly

LtSCD	25%	
FCP 12m	294,335	MXN Millions
CB 30d	151%	



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Annual

LtSCD	27%	
FCP 12m	289,649	MXN Millions
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 flows of the statement of financial position 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)	\$ (7,075)	\$ (16,158)	\$ -	\$ (24,981)
Liquidity gaps	275,158	(255,079)	240,811	164,480	1,312,323	(1,762,674)	(24,981)
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.



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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.



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(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 Institution.

The Institution'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.



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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 Institution 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
	<u> </u>	<u> </u>
Computable Liquid Assets		
Total, computable liquid assets	\$ -	\$ 540,180
	<u> </u>	<u> </u>
Cash outflows		
Stable financing	\$ 610,461	\$ 30,523
Less stable financing	246,138	24,614
	<u> </u>	<u> </u>
Unsecured retail financing	856,599	55,137
	<u> </u>	<u> </u>
Operational deposits	352,192	80,851
Non-operational deposits	284,320	122,428
Unsecured debt	7,458	7,458
	<u> </u>	<u> </u>
Unsecured wholesale financing	643,970	210,737
	<u> </u>	<u> </u>



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Liquidity Coverage Ratio	Unweighted amount	Weighted amount
Secured wholesale financing	-	234
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)		Change	
	4Q-22	3Q-22	money	percentage
Computable liquid assets	\$ 540,180	\$ 555,928	\$ (15,748)	\$ (2.8%)
Outflows	341,691	336,759	4,932	1.5%
Inflows	68,784	65,419	3,365	5.1%
Net outflows	272,907	271,340	1,567	0.6%
LCR	197.68	205.96	(8.28)	(4.0%)



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(c) Main changes of the LCR components in the quarter.

Item	Oct 22	Nov-22	Dic-22
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	283,373
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	9.51%
Negotiable instruments	4.49%
Subordinate obligations	1.95%
Money market	0.21%
Interbank	1.98%
Total	100%



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(f) Exposures in financial derivatives and possible margin calls.

Exposure, according to current local exposure guidelines in derivatives for the LCR corresponds to a contingent outlay of transactions involving derivative financial instruments (LBA: Lookback Approach) is detailed below: 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.



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NSFR Schedule 10

Amounts in MXN millions

Net Stable Funding Ratio Disclosure Form

	Individual figures					Consolidated figures				
	Amount not weighted by residual term					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



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NSFR Schedule 10

Amounts in MXN millions

Net Stable Funding Ratio Disclosure Form

	Individual figures					Consolidated figures				
	Amount not weighted by residual term					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
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



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- (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.



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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.



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Regarding judicial processes, in addition to the operational risk management circuit of legal processes, the probability of adverse resolution is calculated on the inventory of administrative processes and legal claims where the Institution is a plaintiff or defendant. Based on the foregoing, the Institution considers that the main factors that influence legal risk are: degree of non-compliance with regulation; types of judicial process in which 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.



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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 Institution is designed and coordinated at the Head of Non-Financial Risks, aligned with Grupo BBVA (in Spain) corporate criteria. Business or support areas have, in turn, Internal Control officers (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 Institution 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 98% of the cases.



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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 Institution requested and obtained authorization from the Commission, to use the Alternative Standard method to calculate the capital requirement for operational risk.

6) Alternative Standard Method

The Alternative Standard Method consists of a simple totaling of the net revenues for each of the eight business lines, multiplied by the factors related to each line, except when it involves the calculation of the capital requirements for operational risk of the retail banking and commercial banking business lines, for which the capital requirement will be calculated by substituting the monthly net revenue of each of these lines of business, for the amount exercised of monthly loans and advances for each business line, multiplied by a fixed factor "m," which will be 0.035.

The factors to be used by business line are as follows:

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



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The general objective of the risk management policies is to avoid significant losses derived from exposure to the Institution's risks, which are demonstrated by the levels of the financial indicators disclosed in note 37, which reflect the Bank's financial stability.

(36) Financial indicators (unaudited)-

As of December 31, 2022, according to Article 182 of the Regulations, the Institution's financial indicators are as follows:

	2022
Delinquency ratio	1.58%
Hedge ratio of portfolio of Stage 3 loan portfolio	207.93%
Operating efficiency	2.55%
ROE	26.27%
ROA	2.94%
Capitalization ratio, credit, market and operational risk	19.19%
Core capital 1 on credit, market and operational risk	16.83%
Liquidity	92.11%
Net adjusted interest margin (MIN) /Average Productive Assets	5.40%

(37) Ratings-

As of December 31, 2022, the ratings assigned to the Institution are as follows:

Rating Agency	Global Scale M. E.		Domestic Scale		Outlook
	Long Term	Short Term	Long Term	Short Term	
Standard & Poor's	BBB	A-2	mxAAA	MxA-1+	Stable
Moody's	Baa1	P-2	AAA.mx	MX-1	Stable
Fitch	BBB	F2	AAA(mex)	F1+(mex)	Stable

(38) Commitments and contingent liabilities-

Contingencies-

As of December 31, 2022, there are claims against the Institution 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 Institution has weighted the impacts of each one of them and has recorded a reserve for these matters for \$1,108.



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As of December 31, 2022, there are claims against the Institution in labor actions; however, in opinion of its lawyers, claims filed are considered inadmissible and, in the event of unfavorable resolutions, they would not affect significantly the Group's financial condition, given that, as of December 31, 2022, the Institution 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.

(39) 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.



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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.



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- 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)



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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 Nocional
	<hr/>
Collateral and loans	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
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.



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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).

December 31, 2022	USD Libor	
	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



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Migration status

In 2022, migrations detailed below continued, 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.



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“€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 following timing methodology, various interest calculation approaches have been proposed for similar instruments 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 Reset	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 (for settlement 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 and 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.
Hybrid 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.



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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
		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
		SOFR Term
Complex and structured loans	Corporate Banking	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
		SONIA Term
		SONIA Term



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(40) 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 Institution’s Management estimates that the effects of adopting the improvements to the FRSs shall not be material for the financial statements.

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.



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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.



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- 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.



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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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and subsidiaries**

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

Consolidated Financial Statements

December 31, 2021 and 2020

(With Independent Auditors' Report)

(Translation from Spanish Language (Original))

Independent Auditors' Report

To the Stockholders and Board of Directors of

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

Grupo Financiero BBVA México

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

Grupo Financiero BBVA Bancomer):

Opinion

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

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

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditors' responsibilities for the audit of the consolidated financial statements section of our report. We are independent of the Bank in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Mexico, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

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

(Continued)



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

(Continued)





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

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





Other information

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

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

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

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

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

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

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

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

Auditors' responsibilities for the audit of the consolidated financial statements

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.



- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Bank to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group's audit. We remain solely responsible for our audit opinion.

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

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

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

KPMG Cárdenas Dosal, S. C.

SIGNATURE

Hermes Castañón Guzmán

México City, February 28, 2022

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

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

Consolidated balance sheets

December 31, 2021 and 2020

(Millions of Mexican pesos)

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

(Continued)

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

Consolidated balance sheets, (continued)

December 31, 2021 and 2020

(Millions of Mexican pesos)

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

See accompanying notes to the consolidated financial statements.

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

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

SIGNATURE

Eduardo Osuna Osuna
General Director

SIGNATURE

Adolfo Arcos González
General Director of Internal Audit

SIGNATURE

Luis Ignacio De la Luz Dávalos
General Director of Finance

SIGNATURE

Ana Luisa Miriam Ordorica Amezcua
Director of Corporate Accounting

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

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

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

Consolidated statements of income

Years ended December 31, 2021 and 2020

(Millions of Mexican pesos)

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

See accompanying notes to consolidated financial statements.

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

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

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General Director

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Adolfo Arcos González
General Director of Internal Audit

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Luis Ignacio De la Luz Dávalos
General Director of Finance

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Ana Luisa Miriam Ordorica Amezcua
Director of Corporate Accounting

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

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

Consolidated statements of changes in stockholders' equity

Years ended December 31, 2021 and 2020

(Millions of Mexican pesos)

	Paid-in capital			Earned capital					Majority stockholders' equity	Non controlling interest	Total stockholders' equity	
	Capital stock	Additional paid-in capital	Statutory reserves	Retained earnings	Unrealized valuation of available-for-sale securities	Unrealized valuation of cash flow hedge derivatives	Cumulative translation effect	Remeasurements of employees' defined benefit plans	Net income			
Balances as of December 31, 2019	\$ 24,143	15,860	6,901	121,029	(84)	(113)	440	(2,602)	49,254	214,828	38	214,866
Changes resulting from stockholders' resolutions:	-	-	-	49,254	-	-	-	-	(49,254)	-	-	-
Appropriation of prior year's net income	-	-	-	(10,275)	-	-	-	-	-	(10,275)	-	(10,275)
Dividends declared (note 24 (a))	-	-	-	38,279	-	-	-	-	(49,254)	(10,275)	-	(10,275)
Total	-	-	-	-	-	-	-	-	-	-	-	-
Changes related to the recognition of comprehensive income (note 2 (e)):	-	-	-	-	-	-	-	-	36,167	36,167	(1)	36,166
Net income	-	-	-	-	2,904	-	-	-	-	2,904	-	2,904
Valuation effects of available-for-sale securities	-	-	-	-	-	17	-	-	-	17	-	17
Unrealized valuation of cash flow hedge derivatives	-	-	-	-	-	-	-	(1,444)	-	(1,444)	-	(1,444)
Remeasurements of employees' defined benefit plans	-	-	-	-	-	-	-	(1,444)	-	(1,444)	-	(1,444)
Total	-	-	-	-	2,904	17	-	(1,444)	36,167	37,644	(1)	37,643
Balances as of December 31, 2020	24,143	15,860	6,901	160,008	2,820	(89)	440	(4,046)	36,167	242,197	37	242,234
Changes resulting from stockholders' resolutions:	-	-	-	36,167	-	-	-	-	(36,167)	-	-	-
Appropriation of prior year's net income	-	-	-	(11,080)	-	-	-	-	-	(11,080)	-	(11,080)
Dividends declared (note 24 (a))	-	-	-	25,087	-	-	-	-	(36,167)	(11,080)	-	(11,080)
Total	-	-	-	-	-	-	-	-	-	-	-	-
Changes related to the recognition of comprehensive income (note 2 (e)):	-	-	-	-	-	-	-	-	60,260	60,260	14	60,274
Net income	-	-	-	-	(8,718)	-	-	-	-	(8,718)	-	(8,718)
Valuation effects of available-for-sale securities	-	-	-	-	-	(692)	-	-	-	(692)	-	(692)
Unrealized valuation of cash flow hedge derivatives	-	-	-	-	-	-	(440)	-	-	-	-	(440)
Immediate transition effects	-	-	-	-	-	-	-	1,090	-	1,090	-	1,090
Remeasurements of employees' defined benefit plans	-	-	-	-	-	-	-	-	-	-	-	-
Total	-	-	-	-	(8,718)	(692)	(440)	1,090	60,260	51,500	14	51,514
Balances as of December 31, 2021	\$ 24,143	15,860	6,901	185,095	(5,898)	(788)	-	(2,956)	60,260	282,617	51	282,668

See accompanying notes to consolidated financial statements.

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

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

SIGNATURE

Eduardo Osuna Osuna
General Director

SIGNATURE

Luis Ignacio De la Luz Dávalos
General Director of Finance

SIGNATURE

Adolfo Arcos González
General Director of Internal Audit

SIGNATURE

Ana Luisa Miriam Odróica Amezcua
Director of Corporate Accounting

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

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

Consolidated statements of cash flows

Years ended December 31, 2021 and 2020

(Millions of Mexican pesos)

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

See accompanying notes to consolidated financial statements.

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

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

SIGNATURE

Eduardo Osuna Osuna
General Director

SIGNATURE

Adolfo Arcos González
General Director of Internal Audit

SIGNATURE

Luis Ignacio De la Luz Dávalos
General Director of Finance

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Ana Luisa Miriam Ordorica Amezcua
Director of Corporate Accounting

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

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

Notes to the consolidated financial statements

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

(1) Activity and operating regulatory environment

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

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

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

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

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

(Continued)

(2) Authorization and basis of presentation

Authorization

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

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

Basis of presentation

(a) Declaration of compliance

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

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

(b) Use of judgment and estimates

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

Judgments

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

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

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

Assumptions and estimation uncertainties

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

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

(c) Functional and reporting currency-

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

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

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

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

(e) Comprehensive income-

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

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

(3) Summary of significant accounting policies

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

(a) Recognition of the effects of inflation-

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

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

(b) Basis of consolidation-

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

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

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

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

(c) Offsetting financial assets and financial liabilities-

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

(d) Cash and cash equivalents-

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

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

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

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

(e) Margin accounts-

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

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

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

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

(f) Investment securities-

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

- *Trading securities-*

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

- *Securities available-for-sale-*

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

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- *Securities held to maturity-*

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

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

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

- *Transfers between categories-*

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

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

- *Impairment-*

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

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

- *Value date transactions-*

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

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

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(g) Repurchase/resale agreements-

Repurchase agreements are recorded as follows:

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

– *Acting as a seller on resale agreements-*

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

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

– *Acting as a buyer on repurchase agreements-*

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

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

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

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

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

(h) Securities lending-

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

– *Acting as lender-*

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

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

– *Acting as borrower-*

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

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

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

(i) Settlement clearing accounts-

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

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

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(j) Derivatives-

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

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

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

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

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

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

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

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

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

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Trading transactions-

– *Optional securities (“Warrants”)-*

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

– *Forwards and futures contracts-*

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

– *Options-*

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

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

– *Swaps-*

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

Hedging transactions-

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

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

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Embedded derivatives-

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

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

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

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

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

(k) Loan portfolio-

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

The Institution classifies its portfolio under the following captions:

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

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

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

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

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

Performing loan portfolio-

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

Non-performing loan portfolio-

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

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

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

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

Sustained payments-

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

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

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

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

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

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

Financial factoring, discount and assignment agreement of credit rights-

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

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

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

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

Financial asset derecognition-

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

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

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

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

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

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

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

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

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

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

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

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

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

(Continued)

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(I) Allowance for loan losses-

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

i) Commercial loan portfolio-

Business and commercial-

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

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

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

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

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

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

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

Commercial loans other than for Large Enterprises and Enterprises-

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

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

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

Where:

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

The PD_i will be calculated according to the following formula:

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

For purposes of the above:

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

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

Where:

Quantity Credit

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

Qualitative credit

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

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

Unsecured loans-

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

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

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The EAD_i will be determined based on the following:

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

$$EAD_i = S_i$$

- II. For other credit lines:

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

Where:

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

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

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

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

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

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

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

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

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

Where:

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

(Continued)

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The PD_i will be determined according to the following formula:

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

For such purposes:

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

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

Where:

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

Unsecured loans-

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

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

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The EAD_i will be determined based on the following:

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

Where:

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

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

Authorized

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

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

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

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

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

iii) Residential mortgage loan portfolio-

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

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

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

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

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

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

iv) Non-revolving consumer loan portfolio-

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

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

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

Where:

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

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

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

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

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

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v) Consumer credit loan portfolio-

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

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

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

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

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

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

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vi) Restructuring and renewal processes-

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

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

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

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

Interest rate: when the agreed interest rate improves.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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(m) Securitization with transfer of ownership-

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

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

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

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

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

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

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

(n) Other receivable, net-

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

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

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

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

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

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

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

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

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

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

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

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

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Allowance for real estate

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

(p) Property, plant and equipment, net-

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

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

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

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

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

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

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

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

(r) Equity investments-

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

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

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

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

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

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

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

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

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

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

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

(u) Deposits funding-

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

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

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

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

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

(v) Bank and other borrowings-

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

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(w) Employee benefits-

Short-term direct benefits

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

Long-term direct benefits

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

Severance benefits

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

Post-employment benefits

Defined contribution plans

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

Defined benefit plans

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

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

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

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

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

(x) Accruals-

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

(y) Foreign currency transactions-

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

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

(z) Net interest income-

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

Interest income-

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

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

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

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Interest expense-

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

Commissions charged and associated costs and expenses-

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

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

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

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

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

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

(aa) Memorandum accounts-

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

– *Contingent assets and liabilities:*

Formal claims that may involve any responsibility for the Institution.

– *Loan commitments:*

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

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

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– *Assets in trust or under mandate:*

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

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

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

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

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

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

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

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

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

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

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

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

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– *Collateral received by the entity:*

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

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

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

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

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

– *Other record accounts:*

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

(ab) Contingencies-

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

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(4) Cash and cash equivalents

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

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

(2) See explanation in the next page.

(3) See explanation in the next page.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(5) Margin accounts

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

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(6) Investment securities

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

a. Trading securities

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

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

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

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

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

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

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

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

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

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

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

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

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b. Available for sale

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

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

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

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

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

(Continued)

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

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

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

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

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c. Held to maturity

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

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

d. Received/Pledged Collateral

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

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

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

(7) Repurchase transactions and securities lending

a. Repurchase agreement receivables

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

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

(Continued)

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b. Creditors on repurchase/resale agreements

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

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

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

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

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

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

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

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(8) Derivatives

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

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

Trading:

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

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

Hedging:

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

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

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

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

Trading:

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

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

Hedging:

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

At year end 2020, the following contracts were open:

Trading:

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

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

Hedging:

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

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

Trading:

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

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

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

⁽¹⁾ OTC (Over the Counter)

⁽²⁾ OM (Organized Markets)

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

Trading:

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

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

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

Trading:

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

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

Swaps for hedging purposes:

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

Fair value hedging

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

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Cash flow hedging

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

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

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

Fair value hedging

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

Cash flow hedging

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

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

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

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

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

(Continued)

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e. Transactions with embedded derivatives

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

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

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

e.1. Embedded options (Underlying)

Trading:

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

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

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		2020		
		Underlying	Par value	Fair value
Purchases	OTC Options	USD	\$ 1,211	6
		Interest rates	11,513	123
			<u>\$</u>	<u>129</u>

		2020		
		Underlying	Par value	Fair value
Sales	OTC Options	USD	\$ 1,135	6
		Interest rates	2,176	1
		Index	1,263	129
			<u>\$</u>	<u>136</u>

e.2 Embedded swaps (Underlying)

Trading:

		2021			
Underlying	Currency	Notional amount	Market value receivable	Market value payable	Fair value
Currencies	Peso	\$ 68	68	68	-
	USD	73	75	75	-
			<u>143</u>	<u>143</u>	<u>-</u>
Interest rate	Peso	\$ 8,605	290	296	(6)
	USD	463	464	464	-
			<u>754</u>	<u>760</u>	<u>(6)</u>
			<u>\$ 897</u>	<u>903</u>	<u>(6)</u>

		2020			
Underlying	Currency	Notional amount	Market value receivable	Market value payable	Fair value
Currencies	Peso	\$ 717	720	723	(3)
	USD	799	652	650	2
			<u>1,372</u>	<u>1,373</u>	<u>(1)</u>
Interest rate	Peso	\$ 5,798	150	207	(57)
	USD	100	-	-	-
			<u>150</u>	<u>207</u>	<u>(57)</u>
			<u>\$ 1,522</u>	<u>1,580</u>	<u>(58)</u>

e.3 Embedded forwards (Underlying)

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

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

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

Type of hedge relationship: Cash Flow

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

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

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Type of hedge relationship: Fair Value

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

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

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

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

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

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

Type of hedge relationship: Cash Flow Hedges

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

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

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

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Type of hedge relationship: Fair Value

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

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

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

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

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

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(9) Loan portfolio

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

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

(Continued)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(Continued)

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

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

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

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

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

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

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

Loan support program

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

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

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

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

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

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

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

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

Common risk

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

Maximum financing limit

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

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Risk diversification

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

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

Potential risk

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

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

(10) Restructured loans denominated in UDIs

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

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(11) Allowance for loan losses

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(12) Securitization transactions

Mortgage portfolio securitizations

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

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

– Transfer contract

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

– Irrevocable Trust Contract for the Issuance of securitized debt instruments

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

– Loan Servicing Contract

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

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

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

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

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

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

– **Assignment Contract**

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

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

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

– **Loan Servicing Contract**

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

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

The specific characteristics of each trust are detailed below:

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

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

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

(13) Other accounts receivable, net

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

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

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

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

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

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

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

	<u>2021</u>	<u>2021</u>	<u>2020</u>	<u>2020</u>
	<u>Acquisition</u>	<u>Accrued</u>	<u>Carrying</u>	<u>Carrying</u>
	<u>cost</u>	<u>interest</u>	<u>amount</u>	<u>amount</u>
Collateral granted by derivatives:				
Actinver Casa Bolsa, S. A. de C. V.	\$ 14	-	14	-
Banca Mifel, S. A. IBM	41	-	41	-
Banco Actinver S. A. IBM	12	-	12	-
Banco Base, S. A. IBM	6	-	6	-
Banco Bilbao Vizcaya Argentaria	-	-	-	1,319
Banco Intercam, S. A. IBM	6	-	6	-
Banco Invex, S. A. IBM	4	-	4	-
Banco JP Morgan, S. A. IBM	480	1	481	659
Banco Mercantil del Norte, S. A. IBM	-	-	-	2,368
Banco Nacional de Comercio Exterior, S. N. C.	-	-	-	89
Banco Nacional de México, S. A.	709	3	712	745
Banco Santander, S. A. IBM	-	-	-	1,456
Banco Scotiabank Inverlat, S. A. IBM	6	-	6	5
Banco Ve por más, S. A. IBM	52	-	52	-
Bank of America México, S. A. IBM	15	-	15	-
Barclays Bank PLC	185	-	185	195
BNP Paribas NY Branch	-	-	-	1,300
Casa de Bolsa Finamex, S. A. B. de C. V.	40	-	40	174
HSBC México S. A. IBM	538	-	538	849
Morgan Stanley	23	-	23	80
Societe Generale	627	-	627	1,218
Standard Chartered Bank	-	-	-	16
UBS AG	-	-	-	10
	<u>\$ 2,758</u>	<u>4</u>	<u>2,762</u>	<u>10,483</u>
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(14) Foreclosed assets, net

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

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

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

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

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

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

(15) Property, plant and equipment, net

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

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

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

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(16) Equity investments

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

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

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

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

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

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

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

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

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

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(17) Other assets

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

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

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

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

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

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

(18) Deposits funding

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

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

^(a) Negotiable instruments issued are detailed below.

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

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Description of the main programs

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

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

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

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

(19) Interbank loans and loans from other entities

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

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

(Continued)

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

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

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

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

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

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

(20) Labor obligations

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

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

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

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2021

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

As of December 31, 2021, the net (liabilities) from defined benefits are as follows:

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

As of December 31, 2021, plan assets ("PA") are as follows:

	Other retirement benefits						Total
	Pension plan and seniority premium	Comprehensive medical service	Benefit upon Death	Retiree sports club	Porvenir bonus	Legal compensation	
\$	12,751	33,929	1,609	--	349	--	48,638

(Continued)

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2021

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

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2021

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

As of December 31, 2021, remeasurements of net (liabilities) assets for defined benefits recognized in OCI are as follows:

Reconciliation of actuarial (loss) gains:

Initial balance - (loss) gain on the obligation	\$
(Loss) gain on the obligation	
Reclassification of remeasurement on the obligation	
Ending balance - (loss) gain on the obligation	
Initial balance - (loss) gain on return of assets	
Gain (loss) on return of PA	
Reclassification of remeasurement in PA return	
Ending balance - (loss) gain on the obligation	
Ending balance - net (loss) gain recognized in OCI	\$

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2020

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

As of December 31, 2020, net (liabilities) from defined benefits are as follows:

Defined benefit obligations	(15,422)
Plan assets	15,172
Net (liability) from defined benefits	(250)

2020

	Other retirement benefits						
	Pension plan and seniority premium	Comprehensive medical service	Benefit upon Death	Retiree sports club	Legal compensation	Total	
Contributions made by the entity	\$ 3,715	7,672	1,031	—	—	12,418	
Plan transfers	1,646	493	82	—	—	2,221	
PA expected return	—	92	(92)	—	—	—	
Actuarial gains accrued in the period	293	635	87	—	—	1,015	
Paid benefits	(562)	(465)	(11)	—	—	(1,038)	
PA at the end of the year	\$ 5,373	8,652	1,147	—	—	15,172	

As of December 31, 2020, plan assets ("PA") are as follows:

PA at the beginning of the year	12,418
Contributions made by the entity	2,221
Plan transfers	—
PA expected return	1,015
Actuarial gains accrued in the period	556
Paid benefits	(1,038)
PA at the end of the year	15,172

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2020

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

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2020

	Other retirement benefits					Total
	Pension plan and seniority premium	Comprehensive medical service	Benefit upon Death	Retiree sports club	Legal compensation	
	\$	(1,848)	155	–	–	(3,568)
		(1,137)	(158)	(3)	–	(2,497)
		161	(12)	1	–	373
		(2,824)	(15)	(2)	–	(5,692)
End balance - (loss) gain on the obligation		90	(4)	–	–	477
Initial balance - (loss) gain on return of assets		281	50	–	–	556
Gain (loss) in return of PA		(7)	3	–	–	(43)
Reclassification of remeasurement in PA return		364	49	–	–	990
End balance - (loss) gain on the obligation		(2,460)	34	(2)	–	(4,702)
End balance - net (loss) gain recognized in OCI						

As of December 31, 2020, remeasurements of net (liabilities) assets for defined benefits recognized in OCI are as follows:

Reconciliation of actuarial (loss) gains:

Initial balance - (loss) gain on the obligation

(Loss) gain on the obligation

Reclassification of remeasurement on the obligation

End balance - (loss) gain on the obligation

Initial balance - (loss) gain on return of assets

Gain (loss) in return of PA

Reclassification of remeasurement in PA return

End balance - (loss) gain on the obligation

End balance - net (loss) gain recognized in OCI

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

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

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

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

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

(21) Subordinated debt

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

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

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(22) Related parties

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

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

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

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

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

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

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

Main items affecting the Institution taxable income were the annual inflation adjustment, accruals, the market valuation results, the pre-maturity of 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 years ended December 31, 2021 and 2020 of the income tax rate and the effective tax rate, as a percentage of the income before income tax, is as follows:

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

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

Other tax matters:

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

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

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

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

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

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

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

According to technical report 53 issued by the CINIF in June 2021, it states that to determine the factor to be used in determining the deferred PTU, the accrued PTU shall be divided by PTU determined at 10% of the tax profit; the ratio obtained must be multiplied by the PTU statutory rate of 10% in order to obtain the factor to be applied in determining and calculating the deferred PTU. For the year ended December 31, 2021, the factor derived from the mechanics mentioned above amounted to 5.6%.

The Institution has recognized deferred PTU derived from the temporary differences that originate significant portions of the assets and liabilities of deferred PTU as of December 31, 2021, which are detailed below:

	<u>2021</u>	
	<u>Temporary differences</u>	
	<u>Base</u>	<u>Deferred Profit Sharing</u>
<u>Temporary Differences (assets):</u>		
Allowance for loan losses (not deducted)	\$ 46,137	2,584
Fees and interest charged in advance	8,290	464
Provisions	6,635	372
Other assets	4,174	234
Foreclosed assets	3,973	222
Valuation of available-for-sale securities (stockholders' equity)	8,426	472
Valuation of hedging derivatives (stockholders' equity)	1,126	63
Pension reserve	1,890	106
Total assets	80,651	4,517
 <u>Temporary Differences (liabilities):</u>		
Market valuation (results)	1,290	72
Early maturity of derivative financial transactions	2,755	154
Other liabilities	1,891	107
Total liabilities	5,936	333
Net deferred assets	\$ 74,715	4,184
Charge in results for the year	\$	3,640
Net charge in OCIs		544

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In assessing the recoverability of deferred tax assets, Management considers whether it is more likely than not that some portion or all the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment.

Other considerations:

In accordance with Mexican tax law, the tax authorities are empowered to examine transactions carried out during the five years prior to the most recent income tax return filed.

In accordance with the Income Tax Law, companies carrying out transactions with the related parties are subject to certain requirements as to the determination of prices, which should be similar to those that would be used in arm's length transactions.

(24) Stockholders' equity

(a) Structure of the capital stock

The Institution's capital stock as of December 31, 2021 and 2020 was as follows:

	Number of shares at par value of MXN \$0.28		
	Capital Stock	Issued Shares (unsubscribed)	Paid-In
Series "F"	9,107,142,859	(1,370,063,922)	7,737,078,937
Series "B"	8,749,999,999	(1,316,335,923)	7,433,664,076
Total	<u>17,857,142,858</u>	<u>(2,686,399,845)</u>	<u>15,170,743,013</u>
	Historical Amount		
	Capital Stock	Issued Shares (unsubscribed)	Paid-In
Series "F"	\$ 2,550	(384)	2,166
Series "B"	2,450	(368)	2,082
Subtotal	<u>\$ 5,000</u>	<u>(752)</u>	4,248
Reordering of capital updates			10,971
Adjustment to MXN as of December 2007			8,924
Total			<u>\$ 24,143</u>

On February 26, 2021, the General Ordinary Shareholders' Meeting authorized the distribution of dividends for up to \$25,317, from the "Result from previous years" account, of which \$11,080 were paid to shareholders on June 14, 2021 at a rate of MXN \$0.730353153468186 per share, see note 24(c).

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On February 28, 2020, at the Ordinary General Shareholders' Meeting, it was resolved to authorize the distribution of dividends up to the amount of \$39,101, from the "Results from previous years" account, of which \$10,275 were paid to shareholders on March 24, 2020 at a rate of \$0.677299061172885 pesos per share.

(b) Comprehensive income

Comprehensive income for years ended on December 31, 2021 and 2020, amounted to \$51,514 and \$37,643, net of deferred taxes, respectively, such amount is shown in the consolidated statement of changes in stockholders' equity and represents the result of the total activity of the Institution and its subsidiaries during the year, and includes the items that according to the applicable Accounting Criteria, recorded directly in stockholders' equity (result from valuation of securities available for sale and result from valuation of cash flow hedging, corresponding to one of the above mentioned items and remeasurements for employees' defined benefits.)

(c) Stockholders' equity restrictions

The Banking Law requires the Institution to set aside 10% of its profits annually in order to establish capital reserves, up to the amount of paid-in capital. As of December 31, 2021 and 2020, the Institution has reached the required reserve amount with respect to the historical paid-in capital.

In the event of profits distribution not subject to taxes applicable to the Institution, such tax must be paid upon distribution of the dividend. Therefore, the Institution must consider the profits subject to each rate.

On April 16, 2021, the Commission issued official letter No. P083/2021, superseding official letter dated March 31, 2020, regarding the payment of dividends, the repurchase of shares and any other mechanism or act that involves a transfer of equity benefits to shareholders (or the assumption of the irrevocable commitment to pay them), which is mentioned below.

Due to the Covid-19 pandemic in Mexico and worldwide, on March 31, 2020, the Commission recommended banking institutions in Mexico to refrain from agreeing to pay shareholders dividends from the Multiple Banking Institution, as well as any mechanism or action that involves a transfer of economic benefits to them or assuming the irrevocable commitment to pay them with respect to the 2019 and 2020 fiscal years, including the distribution of reserves, or carry out rewards of shares or any other mechanism aimed at rewarding shareholders. If the relevant Multiple Banking Institution is member of a financial group, the measure will include the holding company of the group to which it belongs, as well as the financial entities or companies that are part of said group.

(d) Institution's capitalization index (unaudited)

Capitalization rules establish requirements in relation to specific levels of net capital, as a percentage of the assets subject to market risk, credit and operational risks; however, for purposes of the net capital calculation, deferred taxes shall represent a maximum of 10% of the basic capital.

Under the standard method, transactions are classified into 12 different groups based on the counterparty and must be weighted according to the applicable degree of risk.

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In addition, under this method, a greater weight is allocated to the past due portfolio (115% and 150%) and the mortgage loans shall have a factor of 50% to 100%, depending on the level of the down payment and the related guarantees, which serve to increase the down payment percentage and to allocate a better weight.

- *Capitalization for operational risk*

To calculate the capital requirement for exposure to operational risk, the Institution must use the Alternative Standard Method, authorized by the Commission on November 27, 2015.

The capital requirement for the alternative standard method must be implemented within a term of three years and it must consider the weight according to the business line.

The amendments to the Capitalization rules issued in December 2014, effective October 2015, are shown below:

- *Capitalization for market risk*

According to amendments to the capitalization rule in effect as of October 2015, the applicable weights for reports RC-01, RC-02, RC-03 and RC-04 were modified. In addition, in the RC on share positions (RC-05) weights for the general market risk are changing. The portfolio diversification calculation is omitted using instead 8% of the market specific risk, and finally the calculation for liquidation risk is suppressed.

A new RC was added to the market requirements, RC-18, which captures the effect of Gamma and Vega on the option positions and is reflected in the total market risk at the end of December 2018. This requirement is additional to requirements generated in the other RCs.

- *Capitalization for credit risk*

With respect to credit risk, changes to the capitalization rule caused the counterparty risk to be split in counterparty and related party credit risk and credit risk for credit valuation adjustment and with related parties and exposure to non-compliance fund in bank clearing houses. As of September 2021, changes in weights applicable to the standard method of Article 2 bis 17 are included.

The Institution's capitalization index as of December 31, 2021 amounted to 19.16% of total risk (market, credit and operational) and 30.21% of credit risk, which are 7.16% and 18.21% points above the minimum required, including in addition the conservation the equity are 2.5% and 1.5% of supplementary for the risk systematic.

The amount of net capital, made up of basic and supplementary capital, is broken down below (shown figures may differ in their presentation in the Institution's consolidated financial statements).

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Basic capital

Item	Amount
Stockholders' equity, without cumulative effect per conversion	\$ 282,616
Deduction of investments in subordinated instruments	(105)
Deductions of investments in shares of financial entities	(574)
Organization expenses and other intangibles	(5,938)
Deferred taxes for tax losses	(4,765)
Total	\$ 271,234

Supplementary capital

Item	Amount
Obligations and capitalization instruments	\$ 39,990
Allowance for loan losses	618
Total	\$ 40,608
Net capital	\$ 311,842

Item	Amount	Maturity Date	Calculation Percentage	Weighted Average (Basic Capital)
Computable capitalization instruments	\$ 4,102	11/12/2029	100%	\$ 4,102
Computable capitalization instruments	20,507	01/18/2033	100%	20,507
Computable capitalization instruments	15,381	09/13/2034	100%	15,381
Total	\$ 39,990			\$ 39,990

Assets at risk are comprised as follows:

– *Assets subject to market risk:*

Item	Risk-weighted assets	Capital requirement
Transactions in MXN, with nominal rate	\$ 385,342	30,827
Transactions in MXN, with a real rate or denominated in UDIs	10,715	857
Rate of return with respect to the general minimum wage	4,527	362
Interest rate of transactions in foreign currency with nominal rate	32,624	2,610
Positions in UDIs or with return referred to the INPC	66	5
Transactions with respect to the general minimum wage	238	19
Currency positions or with return indexed to exchange rate	8,622	690
Positions in shares or with return indexed to the price of a share or group of shares	5,521	442
Spread	8,772	702
Vega	218	17
Gamma	291	23
Total market risk	\$ 456,936	36,554

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– *Assets subject to credit risk:*

Item	Risk Weighted Assets	Capital Requirement
Weighted at 10%	\$ 662	53
Weighted at 11.5%	880	70
Weighted at 20%	15,552	1,244
Weighted at 23%	6	-
Weighted at 25%	223	18
Weighted at 28.8%	3,490	279
Weighted at 50%	6,758	541
Weighted at 60%	49	4
Weighted at 75%	90,640	7,251
Weighted at 85%	2,256	180
Weighted at 90%	1,497	120
Weighted at 100%	287,082	22,967
Weighted at 115%	6,177	494
Weighted at 150%	193	15
Weighted at 350%	281	22
Weighted at 1250%	955	76
Internal Methodology	573,413	45,873
C V A (RC06 B)	15,349	1,228
E C (RC06 C)	24	2
Derivative counterparty	13,859	1,109
Related	12,952	1,036
Repo and spot counterparty	96	8
	<u>\$ 1,032,394</u>	<u>82,590</u>
Related derivatives		
	<u>\$ 138,055</u>	<u>11,044</u>
Operational risk		

Capital management - The Institution has the required staff, processes and systems for the proper identification, measurement, oversight, control and mitigation of the risks to which the Institution is exposed; for further detail and explanation see note 32.

In turn, the periodic processes to guarantee that financial reports are disclosed and reflect the risks to which the Institution is exposed are defined and established.

Stress tests are performed annually; these are required by the Commission to assess capital sufficiency of the Institution in order to continue acting as intermediary of resources and granting loans under different scenarios.

In addition, there is an analysis comprising liquidity crisis scenarios. These stress scenarios estimate the impact on the auto-financing ratio and the capacity of explicit assets available to cover maturities in a horizon of 12 months, which allows to know the Institution survival horizon. Results show a satisfactory resistance of the Institution to liquidity crisis.

On the other hand, the Institution has different management levers to be actioned should it faced different stress scenarios that could impair its solvency position in terms of capital and/or liquidity. Given the strong condition of the Institution, both financial and of its balance structure, such levers allow it to access wholesale markets, both local and international, to obtain financing and capital, have at its disposal high quality assets for its sale and/or securitization, as well as discount securities, either at the market or with the Central Bank.

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Based on the foregoing, it is determined that the Institution has the mechanisms necessary to efficiently face stress scenarios that may impair the situation, both in relation to the capital and liquidity.

For further details, see “Exhibit 1-O”, required by the Banking Regulations “Supplementary Information for the fourth quarter of 2021”, in compliance with the obligation to disclose information on the Capitalization Index, available on the webpage <https://investors.bbva.com/>.

(25) Foreign currency position

Central Bank regulations provides for standards and limits for banks to keep long or lending (short or borrowing) positions in foreign currencies equivalent to a maximum of 15% of the Institution’s basic capital. As of December 31, 2021 and 2020, the Institution kept an exchange rate risk position within the mentioned limit.

As of December 31, 2021 and 2020, the Institution has assets and liabilities in foreign currency, mainly in US dollars, traslated at the closing exchange rate of \$20.5075 pesos per US dollar and the exchange rate to settle obligations of \$19.9087 pesos per US dollar, respectively, both issued by the Central Bank, as shown below:

	Amounts in millions	
	2021	2020
Assets	18,636	16,366
Liabilities	(17,960)	(15,402)
Net assets position in foreign currency	676	964
Net assets position in MXN (par value)	\$ 13,863	19,192

As of February 25, 2022, the date of authorization of the financial statements, the closing exchange rate determined by the Central Bank was \$20.3769 pesos per US dollar.

Pursuant to the regulations of the Central Bank, the position reported to that institution as of December 31, 2021 and 2020 was USD 280 million and USD 322 million long, which includes foreign currency option positions, and excludes assets and liabilities that are not computable.

The Institution performs transactions in foreign currency, primarily in US dollars, Euros and Japanese yen. The Institution does not disclose its position in currencies other than the US dollar, as it is largely immaterial. The parity of other currencies with the Mexican peso is referenced to the US dollar and is in compliance with the Central Bank regulations, so that the foreign currency position of all currencies is consolidated in US dollars at each monthly closing.

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(26) Position in UDIs

As of December 31, 2021 and 2020, the Institution had UDI-denominated assets and liabilities translated into Mexican pesos, considering the prevailing conversion rate of \$7.108233 and \$6.605597 per UDI, respectively, as follows:

	Million UDIs	
	2021	2020
Assets	\$ 1,890	3,862
Liabilities	(3,373)	(5,074)
Net asset (liability) position in UDIs	<u>(1,483)</u>	<u>(1,212)</u>
Net asset (liability) position Mexican pesos (par value)	<u>\$ (10,541)</u>	<u>(8,006)</u>

As of February 25, 2022, the issue date of the financial statements, the last known UDI exchange rate was \$7.169241 Mexican pesos per UDI.

(27) Preventive and protective savings mechanism

The Bank Savings Protection Institute (*Instituto de Protección al Ahorro Bancario*, "IPAB") was approved on January 19, 1999. It is intended to establish a bank savings protection system for individuals who perform any of the established guaranteed transactions, while regulating the financial support granted to Full-Service Banking Institutions to protect the public interest for an equivalent of up to 400,000 UDIs.

The IPAB has resources derived from the mandatory fees paid by financial institutions, which reflect their risk exposure levels based on their level of capitalization and other indicators determined by the internal regulations of the IPAB Governance Board. These fees must be paid monthly for an amount equivalent to one twelfth of four thousandths of the monthly average of daily debit transactions of the month in question.

During 2021 and 2020, contributions made by the financial group to IPAB for insurance deposits amounted to \$6,392 and \$6,303, respectively.

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(28) Net interest income

For the years ended December 31, 2021 and 2020, the main items comprising the net interest income were as follows:

	2021		
	MXN	US Dollars MXN equivalent	Total
Interest income:			
Interest and returns on loan portfolio (note 9)	\$ 129,270	9,040	138,310
Interest and return on securities (note 6(a), 6(b) and 6(c))	30,789	180	30,969
Interest on cash and cash equivalents	2,346	253	2,599
Interest and premiums on repurchase/resale agreements and securities lending (note 7(b))	1,993	-	1,993
Interest on margin accounts	61	-	61
Interest on subordinated debt	63	-	63
Fee income on loan originations (note 9)	1,822	9	1,831
Other	372	175	547
Total interest income	166,716	9,657	176,373
Interest expense:			
Interest on deposits	(16,347)	(1,717)	(18,064)
Interest on loans by banks and other entities	(1,368)	(12)	(1,380)
Interest on subordinated debt	(2,384)	(570)	(2,954)
Interest and premiums on repurchase/resale agreements and securities lending (note 7(b) and 7(c))	(16,138)	-	(16,138)
Expenses on loan originations	(1,404)	-	(1,404)
Other	(2,061)	(65)	(2,126)
Total interest expense	(39,702)	(2,364)	(42,066)
Net interest income	\$ 127,014	7,293	134,307

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	2020		
	MXN	US Dollars MXN equivalent	Total
Interest income:			
Interest and returns on loan portfolio (note 9)	\$ 128,976	12,041	141,017
Interest and return on securities (note 6(a), 6(b) and 6(c))	30,996	84	31,080
Interest on cash and cash equivalents	2,715	230	2,945
Interest and premiums on repurchase/resale agreements and securities lending (note 7(b))	3,341	–	3,341
Interest on margin accounts	145	–	145
Interest on subordinated debt	63	–	63
Fee income on loan originations (note 9)	1,990	7	1,997
Other	318	270	588
Total interest income	168,544	12,632	181,176
Interest expense:			
Interest on deposits	(25,378)	(2,570)	(27,948)
Interest on loans by banks and other entities	(1,230)	(27)	(1,257)
Interest on subordinated debt	(759)	(4,227)	(4,986)
Interest and premiums on repurchase/resale agreements and securities lending (note 7(b) and 7(c))	(19,067)	–	(19,067)
Expenses on loan originations	(1,267)	–	(1,267)
Other	(1,053)	(70)	(1,123)
Total interest expense	(48,754)	(6,894)	(55,648)
Net interest income	\$ 119,790	5,738	125,528

(29) Commission and fee income

For the years ended December 31, 2021 and 2020, the main items for which the Institution recorded commissions and fee income in the consolidated statement of income were as follows:

	2021	2020
Credit cards and debit cards	\$ 28,174	21,450
Bank fees	7,162	9,123
Investment funds	4,239	4,418
Insurance	2,173	1,567
Other	8,845	7,538
Total	\$ 50,593	44,096

During 2021 and 2020, the amount of revenues earned by the Institution in trust operations amounted to \$494 and \$456, respectively.

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For the years ended December 31, 2021 and 2020, the main items for which the Institution recorded commission and fee expense in the consolidated statements of income are as follows:

	2021	2020
Credit cards	\$ (11,486)	(9,146)
Effective credit card reward points	(3,014)	(2,336)
Promotion fund collateral	(1,042)	(957)
Cash management and fund transfers	(380)	(319)
Credit placement	(779)	(402)
Appraisals	(360)	(286)
Sale of foreclosed assets	(121)	(139)
Purchase-sale of securities	(185)	(196)
Other	(3,278)	(2,812)
Total	\$ (20,645)	(16,593)

(30) Net gain on financial assets and liabilities-

For the years ended December 31, 2021 and 2020, the main items comprising the net gain on financial assets and liabilities were as follows:

	2021	2020
Valuation result:		
Derivatives	\$ 5,807	(814)
Foreign Currencies	(4,676)	(6,326)
Investments in securities (note 6a and 6.a.3)	(1,185)	(1,078)
	(54)	(8,218)
Purchase-sale result:		
Derivatives	348	7,993
Foreign Currencies	7,338	6,056
Investments in securities	468	2,602
	8,154	16,651
Total	\$ 8,100	8,433

(31) Information by segment

The Institution and its subsidiaries take part in different activities of the financial system, such as credit operations, treasury operations, and transfer of funds from abroad, distribution and administration of investment funds, among others. Performance evaluation, as well as the management of the risks of the different activities, is based on the information produced by the Institution's business units, more than the legal entities in which the results generated are recorded.

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Below are the revenues obtained during 2021 and 2020 that show the different segments as indicated in the preceding paragraph.

2021

<u>Item</u>	<u>Total</u>	<u>Commercial Bank</u>	<u>Corporate and Government Banking</u>	<u>Treasury Transactions</u>	<u>Other Segments</u>
Net interest income	\$ 134,307	104,992	29,855	2,211	(2,751)
Allowance for loan losses	(26,382)	(22,480)	(3,902)	–	–
Net interest income adjusted for allowance for loan losses	107,925	82,512	25,953	2,211	(2,751)
Commissions and fees, net	29,948	21,073	9,759	115	(999)
Intermediation result	8,100	3,766	1,068	2,314	952
Other operating income	2,153	69	246	31	1,807
	148,126	107,420	37,026	4,671	(991)
Administrative and promotional expenses	(66,035)				
Net operating revenues	82,091				
Equity in the revenue of associates	88				
Income before income tax	82,179				
Current income tax	(17,557)				
Deferred income tax (net)	(4,348)				
Income before non-controlling interest	60,274				
Non-controlling interest	(14)				
Net income	\$ 60,260				

2020

<u>Item</u>	<u>Total</u>	<u>Commercial Bank</u>	<u>Corporate and Government Banking</u>	<u>Treasury Transactions</u>	<u>Other Segments</u>
Net interest income	\$ 125,528	92,141	30,991	939	1,457
Allowance for loan losses	(47,090)	(38,685)	(8,405)	–	–
Net interest income adjusted for allowance for loan losses	78,438	53,456	22,586	939	1,457
Commissions and fees, net	27,503	18,514	8,607	365	17
Intermediation result	8,433	2,636	927	4,430	440
Other operating income	1,063	(242)	245	19	1,041
	115,437	74,364	32,365	5,753	2,955
Administrative and promotional expenses	(65,037)				
Net operating revenues	50,400				
Equity in the revenue of associates	39				
Income before income tax	50,439				
Current income tax	(16,777)				
Deferred income tax (net)	2,504				
Income before non-controlling interest	36,166				
Non-controlling interest	1				
Net income	\$ 36,167				

(Continued)

(32) Risk management and derivatives (unaudited)

Organizational structure

The Institution's Risk Department reports directly to senior management of the Institution, thus guaranteeing its independence of the business units and establishing the necessary autonomy for the development of its activities.

Generally speaking, based on national and international best practices, three specialized Credit Risk Teams have been created: the first aimed to the Wholesale portfolio, with admission, monitoring and recovery functions. The second team focuses on the SME sector and the last one on the Individuals sector, both performing admission and monitoring functions. The three previous teams are supported and complemented by an area dedicated to the management of recovered Non-Financial Assets (NFA). There is also a specific area for the SME and Individuals sectors that concentrates the recovery functions given the common characteristics and synergies involved in performing the function for these sectors. Additionally, management of market, structural and liquidity risks is integrated into a Unit, which also includes the management of risks of non-bank businesses and asset management.

Additionally, the Advanced Analytics, Risk Solutions and Risk Transformation units exist in support of the units mentioned above. Advanced Analytics addresses specialized needs of methodologies and technologies in the Risk areas. Risk Solutions ensures that the areas have the necessary technological resources to carry out their functions and leads the portfolio of projects in this area. Risk Transformation seeks the efficient execution and continuous improvement of the processes of the Risk areas.

The Portfolio Management, Data & Reporting unit has been implemented for the integration, monitoring and generation of reports for the management of the areas, as well as for the measurement of operational risk and loss management. In addition, this area is responsible for the disclosure of information within the scope of Risks with strict adherence to national and international regulations.

In conformity with the Commission's regulatory requirements for the disclosure of the policies and procedures established by credit institutions for comprehensive risk management, below we present the measures established for such purpose by management of the Institution, as well as the relevant quantitative information.

Qualitative information:

Participation of the governing bodies:

The Institution's risk management model is characterized by the direct influence of its corporate entities with regard to both the definition of the risk strategy and the follow-up and continuous supervision of its implementation.

The Institution's Board of Directors approves, at the proposal of the Risk Committee, (i) the objectives, guidelines and policies of the Comprehensive Risk Management, and potential amendments, (ii) the global limits of exposure to risk and, where appropriate, the Specific Risk Exposure Limits, considering the Consolidated Risk, broken down by business unit or risk factor, as well as, where appropriate, the Risk Tolerance Levels, (iii) special cases or circumstances in which both the Global Risk Exposure Limits and the Specific Risk Exposure Limits may be exceeded, (iv) Capital Sufficiency Assessment including the capital estimate and, where appropriate, the capitalization plan, and (v) the Contingency Plan and its amendments.

The Delegated Risk Committee of the Institution's Board approves: (i) the Specific Risk Exposure Limits and the Risk Tolerance Levels and the indicators on liquidity risk, (ii) the methodologies and procedures to identify, measure,

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monitor, limit, control, inform and disclose the different types of risk to which the Institution is exposed and any potential amendment, (iii) the models, parameters, scenarios, assumptions, including those related to stress tests, which are used to conduct the Capital Sufficiency Assessment and to be used to carry out the valuation, measurement and control of the risks proposed by the Unit for Comprehensive Risk Management, which must be in accordance with the Institution's technology, (iv) the methodologies for the identification, valuation, measurement and control of the risks of new transactions, products and services the Institution intends to offer to the market, (v) correction plans proposed by the Chief Executive Officer, (vi) the evaluation of the aspects of Comprehensive Risk Management, and (vii) the level of effectiveness that validation mechanisms of the security elements of the identifications presented by potential clients must have, as well as the technology to carry out the biometric examinations contemplated in the law.

In addition to the other activities in compliance with the applicable regulations and those that are delegated by the Institution's Board of Directors.

Policies and Procedures

Risk manuals are in place that set out the strategy, organization, operational framework, technological framework, methodological framework and regulatory processes according to the needs of each procedure or Comprehensive Risk Management policy of the Institution.

A training program on risks and regulatory disclosure is also in place, including defined and delimited third-party liability.

Tactic decision making

The Institution's management model guarantees the independence of the Comprehensive Risk Management Unit, which establishes monitoring processes through reports and alerts to detect instances of impairment, together with business objective departures and the structure of limits defined by risk type.

The Institution's different risk units participate in the preparation of the Risk Appetite the Institution is willing to assume to attain its business objectives and which must be submitted, as regards general and specific issues, and sub-limits by the Risk Committee to the Board of Directors, for approval, if any.

The Institution has adequate authorization processes for new products and/or services that imply risks and which include the ratification of each individual product and/or service by the Risk Committee.

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Tools and analytics

Continuous measurement of credit, market and liquidity risks under consistent methodologies and parameters. Budgets are prepared for these metrics, which serve as the basis for the Institution's risk management.

In the reports, the risks incurred by the different business units of the Institution are monitored and analyzed. In said monitoring the Risk Metrics, Risk Appetite, Main Concentrations, Compliance with Regulatory Limits, the Analysis of Credit Stress, Calculation of Regulatory Capital Requirement, Structural Risks, Market Risks, Liquidity Risk, Operational Risk and Legal Risk.

The methodologies and parameters for measuring risks are periodically calibrated and submitted for the approval of the competent entities.

The establishment of periodic sensitivity analyses, testing under extreme conditions and review and improvement of models.

The establishment of monitoring and operational and legal risk control methodologies in conformity with international standards.

Information

Information is the cornerstone of risk management and is utilized for preventive management based on the definition and establishment of early warning indicators and metrics to anticipate risk profile movements - positive and negative - (clients, portfolios, products, asset classes). It is also used to avoid impairment and indicate departures and potential threats derived from all risks and defined axes during the different phases (current, impaired and in recovery), at all the organizational levels of the risk function (risk units in the different business areas, corporate area and specialized areas) and corporate entities, thereby ensuring its coherence and compliance with applicable regulatory requirements.

It is assured that the data used in the preparation of the reports come from unified sources by type of risk, reconciled, traceable, automated to a greater extent (or if they are manual, with controls), with a single definition, guaranteeing the frequency, distribution and confidentiality of the "reporting" among other aspects.

Technological Platform

The source and calculation systems for risk measurements are periodically reviewed and a process of continuous improvement is carried out to guarantee the quality and sufficiency of the data and aiming, to the extent possible, to automate processes.

Audit

Internal Audit in compliance with the obligations indicated in the Banking Regulations (*Circular Única de Bancos* or CUB), conducts on an annual basis a Comprehensive Risk Management Audit in accordance with the legal provisions applicable to the matter, which is sent to the Commission. The recommendations in each of the audits are periodically monitored by the Audit Committee delegated by the Board of Directors.

Similarly, compliance audits in accordance with the Banking Law, the Banking Regulations and other legal provisions applicable to the Institution are conducted by independent experts, whereby it has been concluded that the risk measurement models, systems, methodologies, assumptions, parameters and procedures comply with their

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functionality in response to the characteristics of the Institution's operations, instruments, portfolios and risk exposures.

The Institution considers that to date, it fully complies with the "Regulations on matters of risk management". It also continues with measurement and limitation improvement projects, automation of processes and methodological refinements.

Methodological framework:

For risk purposes, the Institution's balance sheet is broken-down as follows:

(a) Market Risk:

Transactions and investment portfolios – Investment in securities for trading purposes, repurchase agreements and transactions with derivative financial instruments.

Structural Balance – Available for sale, remaining transactions, including securities held to maturity and derivative financial instruments for structural risk management of interest rates and exchange rates.

(b) Credit Risk:

Enterprises and Large Enterprises – Traditional loan portfolio, including small and medium-sized enterprises as well as exposures for investments in issuances as counterparties in derivative financial instruments.

Consumer – Credit cards and non-revolving consumer loans.

Mortgage – Mortgage loans.

For purposes of calculating capital and reserves, advanced internal models are used in the Credit Card, Enterprises and Large Enterprises portfolios; such models are approved by the Commission.

Within the Wholesale Portfolio, the definition of subgroups based on the sales figure function has been established as a global criterion:

Sales volume	Segment
>60 millions MXN	Enterprises
>=50 millions and <60 millions USD	Large Enterprises (Corporate)

Non-revolving consumer portfolios, mortgages and commercial portfolios with sales volumes of less than \$60 use standard models to calculate capital and reserves.

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(c) Liquidity risk:

Banking business, with positions on and off-balance, including loans, traditional deposits, investments in securities, derivatives, wholesale financing, etc.

Furthermore, if there is a contractual obligation, the follow-up and control over the liquidity risk of the banking business includes liquidity which might be required by its subsidiaries, entities belonging to the same financial group or relevant related parties, and liquidity which the banking business itself might require from some of such entities or related parties.

Credit Risk

Methodological information

The measurement of credit risk is associated with volatility of expected revenues and has two basic measures: Expected Loss (EL) and Unexpected Loss (UL).

The EL of a portfolio represents the average credit balance which is not expected to be recovered, plus the net of the losses incurred for its recovery and is considered as an inevitable business loss from granting loans over time. The calculation of the Global EL of each portfolio first requires the determination of the EL for each borrower; for this reason, the model focuses initially on an individual situation

$$\text{Expected Loss} = \text{Probability of Default} \times \text{Loss Given Default} \times \text{Exposure}$$

<u>Portfolio *</u>	<u>Percentage of expected loss</u>	
Commercial	0.70%	
Consumer	5.10%	
Mortgage	0.40%	
<u>Portfolio *</u>	<u>PD</u>	<u>LGD</u>
Commercial	1.60%	34.50%
Consumer	5.90%	86.20%
Mortgage	1.90%	20.80%

*The parameters are weighted on the current portion of each of the portfolios and are calculated based on the Institution's internal models, for the portfolios for which these models have been approved (CC, Enterprises, Large Enterprises and Mortgages) and under the standard method for the others.

Probability of Default is that of a client defaulting its obligations. The elements that make it possible to determine this factor are risk rating by customer, migration of credit quality and condition of past due portfolio.

Loss Given Default is that net economic loss from the recovery of a financing, the elements that allow to determine this factor are recovery expenses (award and sale) and type of collateral.

Exposure refers to the maximum amount of the balance at the time of default, the elements that allow determining this factor are size of facility, facility use and type of product.

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Once the level of expected loss is determined, its volatility determines the amount of economic capital necessary to cover the identified risks. Given that credit losses can vary significantly over time, it can be inferred that by creating a fund with an amount equal to the average loss, the credit risk will be covered in the long term; However, in the short term fluctuations and, therefore, risk persists generating uncertainty, so it must also be covered with a second fund that serves as a guarantee to cover when these exceed the average losses.

From our standpoint, the average losses can be supported with the creation of an allowance for loan losses which should be treated as a cost of the credit business, while the second fund, created to cover unexpected losses, should be assured by setting aside a specific amount of capital which may be used or not, but which assures the solvency of the Institution in the event of above average losses. This allocated capital therefore depends on how volatile the credit losses are over time and is known as Economic Capital, so as to give it a risk connotation.

The level of solvency desired by the Institution has to be established in the calculation of the UL, in such a way that the amount allocated covers the volatility of the losses a specific number of times, thus assuring a specific credit quality for the bank at a certain level of probability. This solvency probability is determined by using the risk classification with which the Institution wishes to operate; consequently, the economic capital will have to be equal to the amount necessary for the probability to materialize. Furthermore, the origination models (Scorings or Ratings) are defined for use in all the transaction and portfolio levels and in the behavior models they are established for the most important portfolio, which is Credit Cards, Mortgages, and Non-Revolving Consumer. These models, apart from supporting the credit decision, are linked with the probability of default established above.

For more information on credit risk and details of Article 88 of the Banking Regulations, go to bbva.mx where a file with all the requirements is published (within the section of investor relations).

Scope and nature of risk information and measurement systems and their reporting

The information systems are housed in a system developed internally for the Institution, which is run in a mainframe IBM environment (Host) as part of the ALTAMIRA unified bank management platform, DB2 databases, and is developed in COBOL.

The Institution ensures that the data used to prepare reports is taken from unified sources by risk type, which have been reconciled, are traceable and essentially automatic (or involve manual sources with controls). This data has a single definition to guarantee reporting frequency, distribution and confidentiality, among other aspects.

Internal model approval

The Institution applies internal methodologies to standardized portfolios, *i.e.*, it does not partially adopt internal methods within portfolios.

The Commission authorized the use of advanced internal models for the first time on June 22, 2009 for the revolving consumer portfolio, and on April 21, 2014 in the case of Enterprises and Large Enterprises, and on November 16, 2018 for the Residential Mortgage Portfolio.

The most recent authorizations for updating parameters were given on October 15, 2020 for Credit Card, on December 17, 2020 for Enterprises, on April 19, 2018 for Large Enterprises, and on August 14, 2020 for Mortgage Portfolio.

Exposure at Default

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The exposure at default (EAD) is defined as the calculation of the used balance in the period under analysis, plus the Available balance and facility granted, adjusted for Credit Conversion Factors (CCF1 and CCF2), respectively, CCF1 and CCF2 are calibrated from historic information.

$$EAD = Used\ Balance + CCF1 * Unused\ Balance + CCF2 * Limitis$$

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/customer will be considered “bad” or in default when either of the following options arises:

- 90 days have elapsed since the day of the first payment default.
- The amount should go through a materiality filter so that the transaction/customer is considered in default.

The materiality filter constitutes the only difference to the definition of default provided in Article 2 Bis 68 of the Banking Regulations.

Loss Given Default

The method used to estimate the severity or LGD is the so-called Workout LGD, based on the cash flow discount of exposures in arrears recovered at different moments in time derived from the portfolio recovery process. The recovery cycle is the process in which a contract goes into arrears and ends when it emerges from such situation. Once a contract goes into arrears, it begins a recovery process known as a recovery cycle in which those movements that increase the debt and which reduce the debt are accounted for. That part which could not be recovered is known as a Loss and if it is expressed as a percentage of the Exposure at Default, it is known as Loss Given Default.

Throughout this recovery process, there is a constant identification of the amounts entering capital accounts, recoveries in memorandum accounts and capital accounts, and the amount of exposure at the time of default. Therefore, the LGD is calculated as the difference between the accrued deposits less discounted recoveries (carried to present value) at the opening date of the cycle, for the exposure at default.

$$Loss\ Given\ Default = LGD = (\Sigma\ entries\ in\ default - \Sigma\ recoveries) / EAD$$

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Coverage and/or mitigation policies by each type of risk

The creation of personal guarantees or security interests in personal or real estate property, apart from improving the credit structure of the transaction, allows the estimate of the Loss Given Default to be mitigated to reduce the credit reserves derived from the regulatory portfolio classification.

The Institution performs revaluations of the loans, based on the type of collateral, using statistical methods or confirming the existence and physical condition of the collateral. The value of the personal and real estate guarantees is updated each year over the term of the loan, except for those which require an ongoing evaluation (shares listed on stock markets) or for discontinued periods (investment projects).

The Institution has a robust system in place to handle financial security interests in real or personal property and a calculation engine, which have been certified by the Commission according to the integral method to recognize credit risk coverage, provided in Articles 2 Bis 31, 2 Bis 36, 2 Bis 37 and 2 Bis 48 of the Banking Regulations.

The integral approach used for the hedge recognition is governed by the following points:

Adjusted amount of collateral: The adjusted amount of a collateral reduces its market value to take into account the loss in value that it may suffer given the fluctuation of its market price and the fluctuation of exchange rates.

$$CA_i = \frac{C_i}{C_i} * (1 - H_C^i - H_{FX}^i) * \frac{(t - 0.25)_i}{T - 0.25} *$$

Covered and uncovered exposure: The calculation of uncovered exposure (E*) is a cyclical process in which each iteration is incorporated into a new collateral (CA_i) according to the prioritization determined, until there is no eligible collateral to be included in the process.

Internal ratings process: For the Enterprises and Large Enterprises internal model (E&LE), the Institution considers groups III and IV and certain cases from group V of the rules for the capitalization requirements of full-service banks and national credit institutions and development banks of the Commission. Group IV excludes clients with investment projects, as well as small and medium mortgage promoters, and small and medium-sized enterprises (SME) according to the sales volume (clients with transactions valued at less than MXN 60 million). Large promoters are considered from group III.

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Description of portfolios with certified internal models:

A description of the wholesale portfolio, which has been rated according to internal models, is provided below.

Closing E&LE December 2021							
Risk Scale	Available	Balance	Exposure to default	Weighted median LGD	Risk weighted	Exposure non-financial security interest	Exposure security interest
A1	\$ 94,582	670,860	399,912	39.98%	0.45%	\$ 184,560	22,138
A2	1,385	37,966	15,176	38.53%	3.02%	24,002	1,027
B1	278	9,309	8,787	40.41%	4.13%	7,185	667
B2	45	1,798	3,037	38.62%	6.07%	4,954	215
B3	553	19,088	6,348	39.77%	9.56%	8,320	337
C1	580	5,805	6,091	39.70%	17.52%	2,543	416
C2	85	3,208	643	38.54%	33.06%	1,042	163
D	6	3,492	338	41.42%	37.91%	-	22
E	12	6,583	6,427	66.35%	99.90%	347	172
Total	\$ 97,526	758,109	446,759	40.30%(*)	2.52%(*)	\$ 232,953	25,158

* Average weighted percentage

For the credit card internal model, the Institution considers group VI (Consumer and mortgage loans) in accordance with the capitalization rules of the Banking Regulations. Such group matches the loans made to clients -Individuals - who were granted a revolving credit line for personal use.

A description of the credit card and qualified mortgage portfolios under internal models is detailed below:

Credit Card Closing December 2021

Risk Scale	Available	Balance	Exposure to default	Weighted median LGD	Risk weighted
A1	\$ 63,181	58,901	83,760	75.43%	1.63%
A2	16,168	16,153	20,942	77.20%	3.93%
B1	8,917	9,191	11,570	77.07%	5.96%
B2	7,883	8,201	10,194	77.33%	7.58%
B3	8,116	8,274	10,390	78.11%	9.11%
C1	9,491	9,037	12,133	78.23%	11.43%
C2	10,278	9,808	13,382	76.80%	22.55%
D	2,085	1,558	2,704	77.10%	37.87%
E	2,452	1,717	3,027	81.02%	58.64%
Total	\$ 128,571	122,840	168,102	76.48%(*)	7.02%(*)

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Mortgage Closing December 2021

Risk Scale	Balance	Exposure to default	Weighted mean LGD	Risk weighting	Current Exposure	Expired Exposure
A1	\$ 234,846	255,459	20.77%	1.02%	\$ 255,459	–
A2	1,581	4,939	20.88%	6.32%	4,939	–
B1	7,398	2,260	20.62%	8.98%	2,260	–
B2	15,737	2,829	20.79%	9.89%	2,829	–
B3	2,534	2,117	21.09%	9.56%	2,117	–
C1	7,373	3,954	20.52%	26.57%	3,954	–
C2	3,558	2,875	29.62%	69.59%	1,249	1,625
D	3,346	4,215	37.03%	94.10%	352	3,864
E	4,083	1,800	49.93%	99.95%	1	1,799
Total	\$ 280,456	280,448	21.30%(*)	4.43%(*)	\$ 273,160	7,288

* Average weighted percentage.

Analysis of estimated losses according to certified internal models

The backtesting exercise matches estimated losses calculated by using the internal model with incurred losses, so as to determine whether established parameters adequately predict their behavior during an annual timeframe.

The level of reserves is considered to be adequate when, at the close of the annual timeframe, the amount of actual losses accrued for certified portfolios does not exceed the band established for estimated reserves.

The result obtained for certified portfolios during the third quarter of 2021 is detailed below.

Loan Portfolio	Backtesting 3Q 2021			
	*** EL MI Sep20	Clean-up Oct20-Sep21	DIFF \$ (OL* - EL **)	% USE EL Sep 20
CREDIT CARD	\$ 10,166	14,515	4,349	143%
E&LE	9,049	2,908	(6,141)	32%
Mortgage	4,234	2,535	(1,699)	60%
Total	\$ 23,449	19,958	(3,491)	85%

* OL = Observed Loss
** EL = Expected Loss
*** IM = Internal Model

The use of loss is 85% which is considered acceptable.

It should be noted that BBVA established additional allowance for loan losses as of April 2020, with figures as of March 2020, to cover risks that were not foreseen in the different methodologies established or authorized by the CNBV; in order to recognize in credit losses the potential economic impacts of the COVID-19 pandemic. The amount of additional allowances was \$6,544 million.

The variation of the allowance cannot be considered as a variation caused by natural dynamics, but rather a variation driven by the adjustments in the attributes made by adherence to the support plan.

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Rating

The rating module is to provide tools for analysis and valuation which enable a loan classification to be given to a customer based on homogeneous data and criteria for the group. The rating is a tool for customer classification, geared towards company banking and corporate banking.

The rating basically consists of classifying the customer based on a series of quantitative variables, which are obtained from the financial statements (Balance Sheet and profit and loss account) and from a series of qualitative variables (sector, market position, etc.).

Using these variables, a series of rules or red flag signals are established which enable the agent or analyst to clarify specific aspects which require a justification (elevated indebtedness, reduced level of proprietary funds, etc.) which, depending on their importance, might condition the result obtained for the loan to be granted. The rating is part of the information used in the process to make decisions on a transaction and it is the indispensable support to set price policies considering the risk-profitability binomial.

Scoring

The scoring module provides tools for analysis and valuation which enable a credit rating to be fixed with a focus on product based on homogeneous data and criteria for the Institution. There are two types of Scoring:

- Origination scoring, which is obtained at the time of contracting, based on proprietary information of the operation and information requested from the customer, generates a score for each operation.

- Behavioral scoring is obtained each month, based on payments behavior with the Institution. This model, which is used in the assignment of scores for each of the operations, is easy to understand, stable and enables the expert to use it in decision-making

Profitability measurement

Aside from calculating capital requirements derived from its credit risk, the Institution also utilizes internal estimates to measure the profitability of transactions awaiting acceptance and stock. In the case of loans granted to enterprises, large enterprises, IFI, states and sovereign entities, profitability and added economic benefit indicators are calculated during the customer evaluation process.

The Institution utilizes two methodologies to measure loan portfolio profitability. One of these involves measuring profitability based on the regulatory capital calculated according to risk-weighted assets (RoRC), while the other methodology measures Risk Adjusted Return on Economic Capital (RAROEC).

Interest Rate Risk

Structural balance

Regarding the risk of the Structural Balance of interest rates and exchange rates, sensitivity of Economic Value and Financial Margin are calculated in the face of parallel movements in the curves of +/- 100 bps and in the aggregate for Pesos and UDIs with respect to the US dollar, according to the methodology authorized by the Risks Committee. A system of alerts has been established for previous metrics; monthly follow-up is provided by the Risk Committee and is quarterly presented to the Board of Directors; mitigation measures have been established for those cases in which alert limits are exceeded.

The structural risk measurement system is QRM (Quantitative Risk Management), which in turn incorporates the characterization of the headings of the structural balance sheet according to the financial characteristics of each heading. The methodology behind the economic value consists of estimating the fair value of the positions on the structural balance sheet, through the calculation of the current value of its net future flows expected from its assets less the flows expected from its liabilities) discounted at market interest rates. By the same token, the methodology behind the net interest income metrics is based on the projection of the interest income and expenses from the structural balance sheet, month-to-month in a 12-month horizon, considering the projected growth of the business. Specifically, the principal assumptions behind the characterization of the headings of the structural balance sheet are as follows:

- Prepayment rates: Supposes an advance payment of certain headings of the structural balance sheet, such as mortgage loans and consumer portfolio.
- Evolution of products which do not have a maturity date: for demand deposits and CC, core or stable and volatile balances are calibrated, and subsequently their evolution over time is forecast.

The assumptions behind the characterization of the headings on the structural balance sheet are modeled based on historical observations, of the same headings of the structural balance sheet and the evolution of the risk factors. At least once a year there is a revision and validation of the adjustment of the models and systems comprising the risk metrics of the structural balance sheet.

To monitor the structural balance risk interest rate and exchange rate, in which the Assets and Liabilities Committee is the executive body responsible for handling the situation. Such committee is not a delegated body of the Board of Directors. It adopts investment and hedging strategies within the policies and risk limits approved by the Board of Directors and the Delegated Risk Committee of the Board.

At the end of December 2021, the aggregate Economic Value Sensitivity and Net Interest Income Sensitivity were MXN (8,262) and (6,327) million, respectively, representing a consumption alert of 69% and 67%, respectively. Sensitivities of +/- 100 bps are presented below:

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Estimated Economic Value Sensitivity (EVS)

<u>Portfolio</u>	<u>(100) bps</u>	<u>+100 bps</u>	<u>Aggregated</u>	<u>Red Flag Use</u>
Mexican pesos	\$ 6,883	(6,634)	(8,843)	
Foreign currency	(3,344)	4,152	(3,344)	
Total	\$ 3,539	(2,482)	(8,262)	69%

12-Month Projection of Net Interest Income Sensitivity (NIIS)

<u>Portfolio</u>	<u>(100) bps</u>	<u>+100 bps</u>	<u>Aggregated</u>	<u>Red Flag Use</u>
Mexican pesos	\$ (4,434)	4,420	(5,768)	
Foreign currency	(1,301)	2,016	(1,305)	
Total	\$ (5,735)	6,436	(6,327)	67%

The use of red flags in the quarter shows the following exposure:

<u>Portfolio</u>	<u>EVS Red Flag Use</u>	<u>NIIS Red Flag Use</u>
Total	68.80%	62.40%

With respect to the annual use of red flags, exposure is as follows:

<u>Portfolio</u>	<u>EVS Red Flag Use</u>	<u>NIIS Red Flag Use</u>
Total	71.40%	58.90%

Market, Liquidity and Operational Risks

Market Risk

With regard to the process for market risk measurement and the operating and investment portfolios, the daily measurement of market risk is made through Value at Risk (VaR) statistical techniques, such as the central measurement:

1. Define the degree of sensitivity in the valuation of positions to changes in prices, interest rates or indexes.
2. Reasonably estimate the expected change for a specific time horizon with certain prices, rates, rates or indexes, considering it the degree to which they can be moved.
3. Reevaluate the portfolio to such expected changes sets and thereby determine the maximum potential loss in terms of value.

In summary, the Value at Risk (VaR) has been fixed based on the view that one day's operation will not lose more than the amount calculated 99% of the time.

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Market, Structural and Non-Banking Risks is responsible for establishing and monitoring the guidelines, methodologies and limits of market risk, counterparty risk, structural risk and liquidity risk of the Institution, establishing the risk measurement parameters, and providing reports, analysis and evaluations to Senior Management, the Risk Committee and the Board of Directors.

The market risk measurement quantifies the potential change in the value of the positions assumed as a result of changes in market risk factors. When significant risks are identified, they are measured and limits are assigned in order to ensure adequate control. The global measurement of risk is made through a combination of the methodology applied to the Trading Portfolios and the Structural Balance. Historical Simulation without smoothing is the official methodology currently utilized to calculate the VaR.

Trading Portfolios

In the specific case of the Institution, the VaR is calculated by Historical Simulation and provided that it will not be lost over the horizon of one more day of said VaR 99% of the time. Two methodologies are used with and without “Exponential Smoothing”, one that weighs the latest market data very strongly and the other that gives the same weight to the information of a whole year of trends.

	<u>4Q 2020</u>	<u>3Q 2021</u>	<u>4Q 2021</u>
VaR of trading securities:			
VaR 1 day	\$ 159	207	181
VaR 10 days	<u>501</u>	<u>645</u>	<u>590</u>
	<u>\$ 660</u>	<u>852</u>	<u>771</u>

	VaR 1 day	VaR 10 days
Value at risk, trade securities		
Interest rate	<u>\$ 162</u>	<u>\$ 529</u>
Equity securities	<u>4</u>	<u>13</u>
Foreign currency	<u>26</u>	<u>83</u>
Vega interest rate	<u>25</u>	<u>78</u>

Furthermore, daily simulations are performed of the losses or gains on the portfolios by means of reassessments under catastrophic scenarios (stress tests). These estimates are generated by applying percentage changes to the risk factors, which were observed in a specific period of the history, which covers significant market turbulence. Every month backtesting is conducted to compare the daily losses and gains that would have been observed if the same positions had been held, by considering only the change in value due to a market movement against the calculation of the value at risk, so that the models used can be calibrated.

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Liquidity Risk

Quantitative information

- (a) Concentration limits regarding the different groups of collateral received and the principal sources of financing.

Apart from the regulatory liquidity ratios and the Institution's liquidity risk control scheme is based on the establishment of limits in three fundamental areas: (i) Self-financing through the LtSCD ratio or Loan to Stable Customer Deposits (maximum relationship of the financing of the net credit investment with stable customer deposits); (ii) financing structure diversification through a maximum amount of Short-Term (FCP); and (iii) Capacity to absorb liquidity shocks through the 30 day Basic Capacity (30d securitized debt certificates– available liquidity buffer coefficient and net outlays of liquidity established within the respective unexpired deadline). There are also red flags to prevent the limits from being exceeded, including the follow-up on other unexpired deadlines. There are also metrics to identify possible threats in advance to allow for the adoption, as the case may be, of the necessary preventive measures, including indicators of financing concentration, foreign exchange liquidity, long-term financing diversification, intraday liquidity, among others.

Quarterly

LtSCD	30%
FCP 12m	\$367,696
Securitized debt certificates 30d	127%

Annual

LtSCD	28%
FCP 12m	\$311,086
Securitized debt certificates 30d	84%

- (b) Exposure to liquidity risk and financing needs at Institution level, bearing in mind legal, regulatory and ~~limitations~~ and the transferability of liquidity.

The Institution's exposure to liquidity risk and its financing needs are based on the principle of decentralized and independent management of liquidity (including Banco Bilbao Vizcaya Argentaria, S.A. in Spain or any of its entities), so as to avoid dependencies or subsidies and eventual contagion due to crisis. At all times they take into account the legal, regulatory and operational limitations on the transferability of liquidity of the applicable rules in setting the liquidity risk policies of the Institution, including the regimes for admission of liabilities and investments for liability transactions in Foreign Currency of Banxico, operating rules of the payment systems, risk diversification in the performance of liability operation specified by the Banking Regulations, among others.

(Continued)

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In the case of the investment regime for liability operations in Foreign Currency, apart from the Shortfall regulatory limit, as a preventive measure there is also a red flag system in place which is stricter than the regulatory limit for the investment regime for liability operations in Foreign Currency of the Central Bank.

- (c) The balance sheet flows at the end of December 2021 by maturity and liquidity gaps are detailed below.

<i>Mexican pesos in millions</i>	On demand	30 days	6 months	1 year	More than 1 year	No maturity date	Total
Cash and cash equivalents	\$ 266,614	–	–	–	33,949	–	300,563
Loan portfolio	–	89,886	186,212	108,041	904,013	–	1,288,152
Securities portfolio	–	1,872	48,352	31,309	503,337	–	584,870
Total assets	\$ 266,614	91,758	234,564	139,350	1,441,299	–	2,173,585
Deposit taking	\$ –	162,658	57,280	1,458	–	1,246,890	1,468,286
Debt and subordinated debt	–	4,088	17,965	35,293	107,283	–	164,629
Repurchase/resale agreements payable	–	165,140	748	1,082	7,614	–	174,584
Other, net	–	–	–	–	–	366,088	366,088
Total liabilities	\$ –	331,886	75,993	37,833	114,897	1,612,978	2,173,587
Off-balance	\$ –	(918)	(3,249)	(1,025)	(6,429)	–	(11,621)
Liquidity gaps	266,614	(241,046)	155,322	100,492	1,319,973	(1,612,978)	(11,623)
Cumulative gaps	266,614	25,568	180,890	281,382	1,601,355	(11,623)	–

* Figures in the preceding table only consider the Institution individually, not on a consolidated basis.

Embedded derivatives

Pursuant to the Institution's programs for issuance of structured bank bonds, the Institution hold foreign currency, indexes and interest rates options, equivalent to a nominal of \$23,096. Likewise, the entity has interest rates and foreign currency swaps with a nominal of \$9,210.

Qualitative information

- (l) The manner in which the liquidity risk is managed in the Institution by considering for such purpose the tolerance to such risk; the structure and responsibilities for liquidity risk management; internal liquidity reports; the liquidity risk strategy and the policies and procedures through the business lines and with the Board of Directors.

The liquidity risk management in the Institution is governed by the following principles: decentralized and independent liquidity management; self-financing of the credit activity of the banks; liquidity planning in the process of growth planning in the activity; clear segregation of functions to achieve a proactive management of liquidity risk, including intraday liquidity and management of collateral, establishment of a transfer pricing system and standards for internal use of liquidity; as well as alignment with regulatory requirements.

The structure and responsibilities for liquidity risk management are clearly segregated by function and area:

- Setting of general policies, fundamental metrics and limits. The risk liquidity policies are approved by its Board of Directors, with the prior favorable opinion of the Risk Committee; which bodies approve the liquidity risk limits scheme.

(Continued)

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- Risk identification, measurement and control. The Risks department identifies, measures and establishes measurements to control liquidity risk to which the Institution is subject through the setting, follow-up and reporting of a limits scheme.
- Management of investing and deposits activity. This is performed by the business areas in accordance with the risks policy.
- Liquidity management and financing. This is performed by Finance, through Financial Management.
- Generation of follow-up information. As much as possible, the Systems and Finance areas of the Institution supply the relevant information for purposes of liquidity risk. At the same time, the Risks department promotes the ongoing improvement of information quality to ensure a correct decision-making process.

The status of the limits and red flags is reported through daily internal reports to Senior Management, Internal Audit and the areas that handle risk, even more frequently in times of crisis.

Strategies are outlined within the risk limits approved by the Board of Directors and Risks Committee delegated by the Board and are agreed upon in the Assets and Liabilities Committee, always within the liquidity risk tolerance approved. Also, follow-up is given on the evolution of liquidity risk and excess risk in these bodies.

- (a) Financing strategy, including diversification policies, and whether the financing strategy is centralized or decentralized.

Every year the Institution prepares a growth plan of its activity, considering the business's growth projections, the maturities profile of assets and liabilities, the appetite for risk and projected market conditions. On such basis, the financing plan is prepared in the wholesale markets, seeking to maintain diversification in financing, thus ensuring that there is no excessive dependence on short-term financing.

- (b) Liquidity risk mitigation techniques used by the Institution

The Institution liquidity risk model, based on the principles quoted in subsection (a) of this Section, at all times takes into account the legal, regulatory and operational restrictions on the transferability of liquidity.

Specifically, one of the strengths of the Institution is based on the quality of its funding, which is diversified by type of clients, instruments and markets. With regard to deposits, there is an extensive network of retail and wholesale clients. This attraction of deposits is complemented and strengthened with local and international issues, maintaining constant access to debt markets.

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In the event of liquidity risk limit or alert triggering, there are specific action and communication procedures within the Institution established with a clear definition of roles for the different areas and decision-making bodies, differentiating the communication level based on whether a limit or alert was triggered. Likewise, there is a Liquidity Contingency Plan, which in the event of activation has a stock of actions classified by their typology based on whether they are related or not to the Mexican Central Bank, the wholesale market or the commercial activity.

- (c) An explanation on the use of stress tests

Liquidity risk stress tests are carried out in different stress scenarios, evaluating in each one the buffer coverage state of available liquidity with the liquidity needs of the scenario in question under different temporary horizons and delimiting the survival horizon under different situations. The results of these tests are integral part of the Liquidity Contingency Plan, as they are part of its activation program.

- (d) Description of contingent financing plans.

The Liquidity Contingency Plan or Contingency Financing Plan is set up as a fundamental element of liquidity risk management in moments of liquidity stress.

It contains clear procedures to make decision making easier, as well as to enable a fast adoption of contingent measures and effective communication, specifying functions and responsibilities in these situations, as well as the authority to activate it. It is defined based on four principles: coordination among the involved units, efficient level of information, confidentiality of performances and information and enforceability. This Plan and its amendments are approved by the Institution's Board of Directors, at the proposal of the Chief Executive Officer. Its activation would be carried out by the Asset/Liability Committee, under a "traffic light approach" for the Plan indicators, which allows to distinguish severity of the situation.

Also, the Institution has a Contingency Plan or Recovery Plan that provides for potential actions to be performed with the purpose of restoring its financial situation in different adverse scenarios that could affect solvency and/or liquidity. This plan describes the bank situation detailing key business lines, recovery indicators, corporate governance for its preparation, as well as in the case of occurrence of adverse scenarios and the process to implement recovery measures. This plan is also approved by the Board of Directors at the proposal of the Risk Committee and prepared by the Chief Executive Officer.

Liquidity Coverage Ratio (LCR)

The LCR quantifies the potential capacity of the Bank to face its 30-day liquidity needs, with available liquid assets, under a stress scenario.

According to the information disclosure requirements set forth in Exhibit 5 of the General Regulations on Liquidity Requirements for Banking Entities, below, a Liquidity Coverage Ratio Disclosure Form for the 2021 fourth quarter must be submitted. As of December 31, 2021, there are no computable liquid assets and therefore there is no determination of the liquidity coverage ratio.

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Liquidity Coverage Ratio	Unweighted amount	Weighted amount
Computable Liquid Assets		
Total computable liquid assets	\$ NA	\$ 556,346
Cash outflows		
Stable financing	\$ 625,952	31,298
Less stable financing	216,844	21,684
Unsecured retail financing	842,796	52,982
Operational deposits	292,936	70,364
Non-operational deposits	230,364	96,884
Unsecured debt	2,592	2,592
Unsecured wholesale financing	525,892	169,840
Secured wholesale financing	266,747	224
Outflows related to derivate financial instruments	27,818	21,507
Facilities and liquidity	594,486	36,927
Additional requirements	622,304	58,434
Other contractual financing obligations	88,534	11,107
Total cash outflows	NA	\$ 292,587
Cash inflows		
Cash inflows from secured transactions	\$ 34,948	-
Cash inflows from unsecured transactions	94,695	55,016
Other cash inflows	5,073	5,073
Total cash inflows	\$ 134,716	60,089
Total computable liquid assets	NA	556,346
Total net cash outflows	NA	233,023
Liquidity Coverage Ratio	NA	240.24%

(a) Calendar days in the 2021 fourth quarter are 92 days.

(b) Main causes of the results of LCR and the evolution of their main components:

The quarterly average CCL increases due to the increase in liquid assets. This increase is greater than that of the net outlays. The increase in liquid assets is due to the growth of traditional deposits, mainly wholesale, and to the result of the quarter.

Item	Weighted amount (average)		Change	
	4Q-21	3Q-21	Money	Percentage
Computable liquid assets	\$ 556,346	\$ 501,930	\$ 54,416	\$ 10.8%
Outflows	292,588	284,653	7,935	2.8%
Inflows	59,565	52,938	6,627	12.5%
Outflows	233,023	231,715	1,308	0.6%
LCR	240.14%	216.69%	23.45%	-

(Continued)

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(c) Main changes of the LCR components in the quarter.

Item	Oct-2021	Nov-2021	Dec-2021
Liquid assets	\$ 509,322	538,634	620,510
Outflows	281,427	290,407	305,859
Inflows	57,168	63,784	57,880
Net outflows	224,259	226,623	247,979
LCR	<u>227.26%</u>	<u>242.94%</u>	<u>250.32%</u>

Liquid assets and outflows increased during the fourth quarter of 2021 due to increases in deposits, mainly wholesale, and the result of the quarter.

(d) Evolution of the composition of Eligible and Computable Liquid Assets

Computable Liquid Assets

	4Q-21	3Q-21	Change
N1 Cash and Banks	\$ 303,086	282,288	20,798
N1 Securities	248,556	214,524	34,032
N2 A	3,721	3,889	(168)
N2 B	983	1,228	(245)
Total	<u>\$ 556,346</u>	<u>501,929</u>	<u>54,417</u>

As a consequence of the increase in deposits, there was an increase in Level 1 liquid assets of + MXN 31 million.

(e) Concentration of financing sources

One of the great strengths of the Institution is the quality of its funding, which is diversified by type of clients, instruments and markets. Regarding deposits, there is an extensive network of both retail and wholesale clients. This attraction of deposits is supplemented and strengthened with local and international issues, over different terms, and constant access is maintained with debt markets. The following table shows the Institution's funding structure at the end of December 2021.

Sources of financing (December 2021)	% of total liabilities
Customers' deposits	79.50%
Collateralized financing	9.45%
Securities	4.76%
Subordinate obligations	3.90%
Money market	0.25%
Interbank	<u>2.14%</u>
Total	100%
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(Continued)

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(f) Exposures in financial derivatives and possible margin calls.

Exposure, according to current local exposure guidelines in derivatives for the LCR corresponds to a contingent outlay of transactions involving derivative financial instruments (LBA: Lookback Approach) is detailed below:

<u>Description</u>	<u>4Q-21</u>
Contingent outlay (Look Back Approach)	\$ 18,650 =====

(g) Mismatch of foreign currencies

Liquidity risk associated to transactions in foreign currency is covered according to the provisions on the liquidity coefficient in foreign currency (ACLME), established by the Central Bank. Also, risk associated to exchange rate is duly funded and managed within the regulatory limits.

(h) Cash flow outlays and receipts that, if appropriate, are not captured in this framework but which the Institution considers relevant for its liquidity profile.

The Institution considers that all relevant flows are covered in the LCR metric calculation, for which reason there are no additional flows to be considered.

Operational Risk

(1) Definition and valuation

Aware of the importance of considering all aspects associated with operational risk, the Institution has implemented comprehensive risk management which not only includes the quantitative aspects of risk, but also seeks to measure other elements that require the introduction of qualitative evaluation mechanisms.

According to the Banking Regulations issued by the Commission, operational risk is defined as: “The potential loss due to failures or deficiencies in internal controls, due to errors in the processing and storage of Operations or in the transmission of information, as well as due to adverse administrative and judicial decisions, fraud or theft and includes, among others, technological risk and legal risk, provided that:

(a) Technological risk is defined as the potential loss due to damage, interruption, alteration or failures derived from the use of hardware, software, systems, applications, networks and any other information transmission channel in the provision of banking services to the Institution’s clients.

(b) Legal risk is defined as the potential loss due to non-compliance with the applicable legal and administrative regulations, the issuance of unfavorable administrative and judicial resolutions and the application of sanctions, in relation to the operations carried out by the Institution”.

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Operational risk originates from the probability of human errors, inadequate or defective internal processes, system failures and the result of external events that could represent a loss for the Institution. This definition includes legal risk and excludes strategic or business risk and reputational risk.

Operational risk management is integrated into the Institution's global risk management structure, which has established and maintains robust internal models that allow timely knowledge of the materialization of operational risk events.

The Portfolio Management, Data & Reporting Unit is in charge of the operational risk measurement, which is independent of the Market Risk and Credit Risk units, and the Audit, Regulation and Internal Control units.

Losses derived from operational risk recorded in 2021 were MXN \$1,000 million, mainly due to operational items related to tax payments (updates, surcharges and fines). The monthly average of losses derived from operational risk recorded in 4Q-21 was MXN \$42 million, mainly due to internal fraud events and fines.

(2) General operational risk model

The operational risk management model is based on a cause-effect model which identifies the operational risk associated with the Institution's processes through a continuous improvement circuit.

- Identification. Consists of determining which risk factors (circumstances which can become operational risk events) reside in the processes of each business/support unit.
- Quantification. The cost that can be generated by a risk factor is determined by using historical data (database of operating losses) or estimated in the case of risks which have not arisen as past events. This quantification is based on two components: occurrence frequency and monitoring the impact generated in the event of occurrence.
- Mitigation. After having identified and quantified operational risk factors, if this risk exceeds desired levels, a mitigation process is implemented to reduce the risk level by either transferring it or implementing control measures that reduce the frequency or impact of an event.
- Follow-up. Qualitative follow-up is provided to analyze the evolution of the operational risk, which involves evaluating the implementation level of mitigation measures. Quantitative follow-up consists of measuring the evolution of causal operational risk indicators, while also analyzing the evolution of operational risk losses.

Additionally, specific management schemes have been established for technological risks and those derived from legal proceedings.

In the case of the former, in addition to the general operational risk methodology, Information Security & CISO ensures that identified risks and mitigation plans are standardized throughout the Institution and are compliant with logical security.

Regarding judicial processes, in addition to the operational risk management circuit of legal processes, the probability of adverse resolution is calculated on the inventory of administrative processes and legal claims where the Institution is a plaintiff or defendant. Based on the foregoing, the Institution considers that the main factors that influence legal risk are: degree of non-compliance with regulation; types of judicial process in which

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it is involved; amount demanded and probability of unfavorable resolution.

The Institution has a comprehensive internal control and operational risk methodology. This methodology allows risk identification in the organization areas, the generation of analyses prioritizing the risks according to an estimated residual (after incorporating the effect of controls), linkage of risks to the processes and establishment of a target level for each risk which, in comparison to their residual risk, identifies weaknesses that must be managed.

(3) General operational risk model

The framework of operational risk management defined by the Institution includes a structure based on the three-line defense method with clear demarcation of the responsibilities, policies and procedures common to the entire Institution. For its operation it has systems to identify, measure, monitor, control and mitigate the operational risks and losses, as well as tools and methodologies to quantify the operational risk.

1st Line of Defense – Business Units

The owners of processes and controls manage the operational risk of their respective areas and are in charge of identifying and evaluating operational risks, carrying out the controls and executing mitigation plans for risks that present control weaknesses.

Those in charge of Internal Control in Business Units and support areas (ICOs) coordinate the management of operational risk of their Units and are responsible for ensuring adequate operational risk management in their Area, extending the methodology for risk identification, promoting the implementation of necessary mitigation measures and controls in all operating processes performed and outsourced by the Area and monitoring their proper implementation and effectiveness.

2nd Line of Defense – Internal Control Specialists (ICSs)

- Non-Financial Risks Unit

Non-Financial Risks, through the Head of Internal Control, is responsible for designing and maintaining the Group's Operational Risk management model and for assessing the degree and updating the degree of application in the business and support areas.

- Define methodology, systems and tools.
- Promote interaction between the areas responsible for internal control and control specialists and ensure compliance with the corporate plan.
- Keep Senior Management informed.

- Risk Control Specialists (RCSs)

Risk Control Specialists (RCSs) define the Mitigation, Control and Monitoring Framework in their field of specialty and contrast it with the one implemented by the first line of defense.

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- Responsible Business.

It is responsible for the management of Reputational Risk, in coordination with the Group's internal control model in those cases where Reputational Risk derives from operational events.

3rd Line of Defense – Internal Audit

Performs an independent review of the control model, verifying compliance and effectiveness of the established policies.

Operational risk management at the Institution is designed and coordinated at the Head of Non-Financial Risks, aligned with Grupo BBVA (in Spain) corporate criteria. Business or support areas have, in turn, Internal Control officers (ICOs) who functionally report the Head of Non-Financial Risks, and who are responsible for implementing the model daily at the business areas. Thus, the Institution has a vision in the front of the process, where they identify and characterize operational risk and make decisions on mitigation.

To carry out this task, the Institution has in place to cover the qualitative and quantitative aspects of operational risk:

- Operational Risk Management Tool – The STORM corporate tool documents the identification and management of the most important risks which constitute the reference to focus attention on the Internal Control Supervision Committees of the business and support units, and on the delegated Risk Committees meetings of the Board held during the year. This tool includes indicator and scenario modules.
- In MIGRO, the mitigation, control and monitoring framework is documented, which includes details of the mitigating factors, indicators and controls implemented by the first line of defense to cover the different operational risks existing in its activity.
- SIRO Tool – Operational risk events almost always have a negative impact on the accounts of the Institution. To ensure detailed control over them, they are registered in a database known as SIRO (Operational Risk Integrated System). To ensure reliability it receives the information directly from accounting by automatic interfaces in 98% of the cases.

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(4) Governance Model

Management by each Area of its operational risks is channeled through the Internal Control Supervision Committees of the Area, where its Management analyzes the situation of its control environment and promotes and monitors the necessary mitigation actions to address any observed weaknesses. Risk Control Specialists carry out the contrast of the proposed actions.

Relevant aspects of operational risk management derived from the Internal Control Supervision Committees are reported to the Senior Management, as well as to the Delegated Risk Committee of the Board, the Audit Committee delegated by the Board and the Board of Directors, through a reporting scheme coordinated by the Head of Non-Financial Risks, which encourages the highest level of the Institution to be permanently involved in the management of operational risks and the functioning of the internal control system.

(5) Capitalization for operational risk

Based on the changes to the Banking Regulations published by the Commission on December 31, 2014, which define the methodological criteria to determine the capital requirement for operational risk through the Basic, Standard, and Alternative Standard approaches, the Institution requested and obtained authorization from the Commission, to use the Alternative Standard method to calculate the capital requirement for operational risk.

(6) Alternative Standard Method

The Alternative Standard Method consists of a simple totaling of the net revenues for each of the eight business lines, multiplied by the factors related to each line, except when it involves the calculation of the capital requirements for operational risk of the retail banking and commercial banking business lines, for which the capital requirement will be calculated by substituting the monthly net revenue of each of these lines of business, for the amount exercised of monthly loans and advances for each business line, multiplied by a fixed factor “m”, which will be 0.035.

The factors to be used by business line are as follows:

<u>Business lines</u>	<u>% Applicable to each business line</u>
Corporate finance	18
Transactions and sales	18
Retail banking	12
Commercial banking	15
Payments and settlements	18
Agency services	15
Asset management	12
Retail brokerage	12

To calculate the net revenues and the amount exercised of loans and advances, it is essential to consider the amount applicable to the 36 months before the month for which the capital requirement is being calculated and must be grouped into three periods of 12 months to determine the annual net revenues.

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The general objective of the risk management policies is to avoid material losses derived from the Institution's exposure to risks. The support programs mentioned in note 9 have not generated uncertainty about the continuity of the Institution as a going concern. Proof of this are the levels of the financial indicators disclosed in note 33, which reflect the financial stability of the entity.

(33) Financial indicators (unaudited)

As of December 31, 2021 and 2020, according to article 182 of the Banking Regulations, the Institution's financial indicators are as follows:

	<u>2021</u>	<u>2020</u>
Delinquency ratio	1.73%	3.01%
Hedge ratio of portfolio of non-performing loans	153.35%	128.68%
Operating efficiency	2.70%	2.84%
ROE	22.96%	15.82%
ROA	2.46%	1.58%
Capitalization ratio credit and market risk	19.16%	17.52%
Basic capital 1 on credit, market and operational risk	16.67%	14.40%
Liquidity	65.12%	65.70%
Net adjusted interest margin (for its acronym in Spanish "MIN")/Average Productive Assets	4.73%	3.74%

(34) Ratings

As of December 31, 2021, the ratings assigned to main subsidiaries the Institution are as follows:

<u>Rating Agencies</u>	<u>Global Scale ME</u>		<u>Domestic Scale</u>		<u>Perspective</u>
	<u>Long Term</u>	<u>Short Term</u>	<u>Long Term</u>	<u>Short Term</u>	
Standard & Poor's	BBB	A-2	mxAAA	mxA-1+	Stable
Moody's	Baa1	P-2	Aaa.mx	MX-1	Negative
Fitch	BBB	F2	AAA (mex)	F1+ (mex)	Stable

(35) Commitments and contingent liabilities

(a) Leases

The Institution leases buildings and premises occupied by some retail branches, as well as computer equipment and software licenses mainly, according to lease agreements with different terms. For years ended as of December 31, 2021 and 2020, the total expense for leases amounted to \$6,824 and \$6,236, respectively and is included in the caption "Administrative and promotional expenses" in the consolidated statement of income.

(b) Administrative services

Until June 30, 2021, the Institution had entered into a contract agreement with BBVA Servicios Administrativos México, S. A. de C. V. and BBVA Operadora México, S. A. de C. V., for the provision of administrative and promotional services. These payments amounted to \$11,271 and \$25,558, in 2021 and 2020, respectively, and are included under the caption "Administrative and promotional expenses" in the consolidated statement of income (note 22).

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(c) Contingencies

As of December 31, 2021 and 2020, there are claims against the Institution in ordinary civil and commercial actions, as well as assessments by the tax authorities; however, in opinion of its lawyers, claims filed are considered inadmissible and, in the event of unfavorable resolutions, they would not affect significantly the Institution's financial condition. For such purposes, as of December 31, 2021 and 2020, the Institution has weighted the impacts of each one of them and has recorded a reserve for these contentious matters of \$778 and \$644, respectively.

The legal contingencies movement for 2021 and 2020 is as follows:

Initial balance			Ending balance
2021	Reserve	Application	2021
644	315	(181)	778
Initial balance			Ending balance
2020	Reserve	Application	2020
630	208	(194)	644

As of December 31, 2021 and 2020, there are claims against the Institution in labor actions; however, in opinion of its lawyers, claims filed are considered inadmissible and, in the event of unfavorable resolutions, they would not affect significantly the Institution's financial condition. For such purposes, as of December 31, 2021 and 2020, the Institution has weighted the impacts of each claim and has recorded a reserve for these labor matters of \$990 and \$718, respectively.

The movement of the claims against the Institution in labor actions for the 2021 and 2020, is as follows:

Ending balance			Ending balance
2021	Reserve	Application	2021
\$ 718	417	(145)	990
Initial balance			Initial balance
2020	Reserve	Application	2020
\$ 683	123	(88)	718

For the type of contingencies referred to in the previous descriptions and to depend on the third-party performance, it is impractical to quantify the inputs or out puts of resources, as well as the eventuality obtaining reimbursements.

(36) Impacts of the new reference interest rates

Financial markets regulators, both in Mexico and internationally, are carrying out improvements to the regulation to replace or modify the determination of the reference interest rates used in the financial markets. Examples of these rates are the Interbank Offering Rate in Mexico (TIIE, for its acronym in Spanish), as well as the London Interbank Offered Rate, known as LIBOR, the Euro Interbank Offered Rate, known as EURIBOR, or the Prime Offering Rate, used in the United States of America (USA) for certain interbank transactions. Some of these rates are also called Interbank Offered Rates or IBOR rates.

The purpose of the regulators is to replace IBOR rates (which are weighted average interest rates at which banks agree to lend to the central bank or to each other) with interest rates that are risk-free, that is, rates at which at the end of each day long positions or short positions are covered between the institutions of the financial system. The objective is that these are real transaction interest rates, and that they correspond to transactions guaranteed with repo agreements that reduce risks and volatility, and not offered interest rates.

In this sense, during the fourth quarter of 2021, the Central Bank published a document related to LIBOR Rate Transition Process to new reference rates aligned with international standards, highlighting that as there is greater certainty on the dates of cessation of publication of the LIBOR rates, in order to continue promoting the sound development of the financial system and in line with the recommendations of various international authorities. The document calls on local market participants so that, after December 31, 2021, LIBOR rates cease to be used as a reference for new contracts entered into in Mexico. Additionally, the use of the new risk-free rates (RFR) is recommended in a new contract entered into after December 31, 2021.

Likewise, the Central Bank published amendments to the following provisions corresponding to the new reference rates, as part of the actions that facilitate an orderly and timely transition:

- Provisions applicable to transactions of credit institutions, regulated multiple-purpose financial companies that maintain patrimonial links with credit institutions and the National Financial Institution for Agricultural, Rural, Forestry and Fisheries Development” contained in Circular 3/2012.
- General provisions referred to in Article 4 of the Law for the Transparency and Regulation of Financial Services in matters of interest rates, contained in Circular 14/2007, in matters of external reference rates.

On the other hand, in October 2019, the CINIF issued Interpretation to Mexican FRS 22, “Recognition of the expected effect on hedging relationships due to expected changes in reference interest rates”, which focused on the expected effectiveness of hedging relationships due to changes expected in interest rates, establishing a practical solution to assume that the current reference interest rate will continue to exist until the end of the hedging relationship, which will continue to meet the requirements of its effectiveness and in October 2020 the CINIF issued the Interpretation to Mexican FRS 24 “Recognition of the effect of the application of the new reference interest rates”.

The Interpretation to Mexican FRS 24 addresses the issue of recognition of the transition effect to the new reference interest rates.

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The Commission granted confirmation of criteria to the Mexican Association of Banks (ABM for its acronyms in Spanish) on the homogeneous treatment that credit institutions must follow, referring to the fact that the modifications in the contractual conditions of the credits subject to a interbank offering rate, which are originated by the IBOR rate reform, should not be considered as a restructuring in accordance of what is established in B-6 Loan Portfolio, as long as the following is met:

- (a) The interest rate is modified solely and exclusively as a direct consequence of the IBOR reform, and
- (b) Similar Cash flows to the original ones are generated, that is, the new contractual interest rate is economically equivalent to the previous interest rate.

Transition process towards new reference rates

In line with the best market practices and recommendations of the different international organizations and working groups, the Institution launched a transition process since the end of 2019.

In order to address the project, a management level Coordination Committee was established, with representatives from each of the affected areas, as well as specialized working groups for each of the matters involved. The action plans to be carried out were defined based on an initial impact assessment diagnosis.

The project was defined in three key phases:

- Phase 0 – Evaluation: in this preliminary phase, an analysis of the businesses, products, systems and processes affected in each unit or subsidiary was carried out. This phase was carried out during the second half of 2019.
- Phase 1 – Enabling: in this phase, the necessary conditions have been created to operate products linked to RFR: adapting processes and operating systems, conduct financial and risk analyses, as well as impact assessment through appropriate metrics. This phase has been carried out throughout 2020 and 2021.
- Phase 2 – Migration: in this last phase, the migration of IBOR-related transactions whose maturity is beyond the dates of cessation of publication of the reference index (June 2023, with respect to the USD LIBOR) will be reviewed. Among possible actions, it is considered to carry out portfolio compression, migration of live transactions, renegotiation of some contracts, etc. This phase is planned to be developed, to a greater extent, throughout 2022; without ruling out necessary actions to be carried out in advance, as required by clients and/or the regulators themselves (as was the case of the migration of derivative transactions in Clearinghouses and linked to Eonia).

The general schedule of the project currently extends until June 2023 and has been adapted throughout the life of the project, as needed.

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Quantitative Disclosures

The interest rates to which the Institution is exposed by currency according to the IBOR reform are shown in the following table:

Currency	Reference rate prior to reform	Reference rate after the reform	Status as of December 31, 2021
USD	USD Libor	SOFR	In process
USD	USD Libor	FED FUND	In process
GBP	GBP Libor	SONIA	NA
CHF	CHF Libor	SARON	NA
JPY	YEN Libor	TONAR	NA
EUR	EURIBOR	EURIBOR	Completed
EUR	EONIA	ESTR	Completed

The Institution has monitored the transition process from the IBOR rates to the new reference rates, reviewing the volume and amount of the contracts for which the transition process to an alternative reference rate has not yet been completed, as well as the contracts that have an appropriate reserve clause. As follows:

- Variable rate loans with clients: USD Libor
- Investments in floating rates financial instruments: USD Libor, Euribor
- Mortgages (USD Libor, Euribor)
- The Institution's Issuances (USD Libor, Euribor)
- Bonds (USD Libor)
- Interest rate derivative financial instruments (USD Libor, Euribor)
- On demand checking accounts with interest (USD Libor, Euribor)

As of December 31, 2021, the Institution maintains IBOR rates exposures with respect to loans and financial assets as shown below:

	Notional
Collateral received:	
EONIA	\$ 279
FED FUNDS**	<u>694</u>
	<u>973</u>
On demand loans:	
EURIBOR*	2,697
LIBOR USD	<u>43,288</u>
	<u>45,985</u>
Total collateral and loans, carried forward	\$ <u>46,958</u>

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		Notional
Total collateral and loans, brought forward from previous page	\$	<u>46,958</u>
EONIA		9,085
ESTR		19,151
EURIBOR		206,521
FED FUNDS		160,144
LIBOR USD Rest of tenors		1,721,391
SOFR		<u>12,889</u>
Rates Derivatives		<u>2,129,181</u>
EURIBOR		93
LIBOR USD Rest of tenors		<u>62,428</u>
Loans – Bilateral		62,521
Loans – Syndicates – LIBOR USD rest of tenors		<u>35,460</u>
Loans ORI		<u>97,981</u>
Total general	\$	2,274,120 =====

* The reference rate EURIBOR is not contractually modified, only the calculation methodology changed (ESTR + 8.5 bps)

**The FED FUNDS reference rate does not have any contractual or methodology modifications.

The Institution has the following accounting list of cash flow and fair value hedges, which will be affected by the IBOR Transition.

The nominal amount of the hedging instruments directly affected, as of December 31, 2021, is as shown below:

		<u>Par value</u>
		<u>2021</u>
USD	\$	3,764
EUR		201
GBP		<u>47</u>
Fair Value Hedge	\$	4,012 =====
USD	\$	628
EUR		<u>377</u>
Cash Flow Hedge	\$	1,005 =====

The Institution, as part of the transition work, keeps track of the transactions, referenced to Libor rates the maturity of which extends after June 2023 and therefore will be subject to migration, as mentioned in the next page.

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- 476 loan agreement at a floating rate
- 3,188 derivatives transactions
- 34,844 remunerated deposit accounts (checkbooks and deposits)

USD Libor

December 31, 2021	Nominal referenced to USD Libor	Nominal pending updating due to IBOR reform (Maturity after June 2023)
On demand loans	43,288	43,288
Derivatives	1,721,391	1,378,516
Loans	<u>98,607</u>	<u>82,432</u>

Migration status

During 2020 and 2021, the migrations detailed below were carried out, which are not classified as restructuring, since the modifications were made as a result of the IBOR transition and the generation of cash flows are similar to the original ones.

	<u>Transactions</u>	<u>Currency</u>	<u>Date</u>
Discount curve transition of Clearinghouse Derivatives Transactions (LCH)	227 IRS	EUR	July 27, 2020
Discount curve transition of Clearinghouse Derivatives Transactions (LCH)	1,649 IRS	USD	October 16, 2020
Discount curve transition of Clearinghouse Derivatives Transactions (CME)	2,089 IRS	USD	March 26, 2021
Replacement of estimation curve of Clearinghouse Derivatives Transactions (CME)- underlying assets	53 IRS	EUR	October 16, 2021
OTC Derivatives Transactions in EUR	53 Transactions 3 Counterparties	EUR	December 2021

Potential Changes in the Risk Management Strategy

Some effects of the replacement of the LIBOR Rate for the different terms of the LIBOR Rate are described below:

- The risks that implied by the new RFR are equivalent to the risk acquired with exposures prior to migration (Libor), which naturally compute in the risk and capital consumption limits defined by the Risk unit for this activity.

The management and monitoring of limits and consumption of said risks is conducted on a recurring basis by the Market Risk and Structural Balance Risk units; these risks are managed in the Global Markets and Financial Management units, respectively.

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- Both the hedging derivatives and the primary positions linked to a Libor rate apply the same migration process, therefore, considering that the changes in the fair value of the transactions, as a result of the change in the reference rate, it has been agreed to be settled in cash, offsetting its effects in the income statement, nor in the list of current hedges.
- The IBOR Reform does not cause changes in the Risk Management strategy, since the migration applies to market reference rates adopted in an orderly manner by market participants; therefore, the change does not involve modification of Risk Management policies or procedures or changes in relevant methodologies: the identified changes that apply for each new rate reference are: construction of the interest rate curves, in the estimate for the change of reference, but also in the discount for the change of collateral from FedFund to SOFR collateral, and in the calibration of the curves since there are Basis FX curves that were market curves and are now iso-forward and vice versa.

Other transition-related disclosures

The meaning of the reference rates and a brief description of the methodologies to determine the calculation of interest are described below:

“SOFR”: The overnight interest rate, in annual terms, called the Secured Overnight Financing Rate published by the Federal Reserve Bank of New York, as the administrator of that indicator (or its successor), on the website of the Federal Reserve Bank of New York, as the administrator of that indicator (or its successor), currently <http://www.newyorkfed.org> or any successor page, at approximately 8:00 a.m., New York time on SOFR Business Days.

“€STR”: With respect to a given TARGET Business Day, the short-term interest rate in Euros denominated “€STR”, administered by the European Central Bank (“ECB”) (or its successor) for that TARGET Business Day, in accordance with the methodology and convention in force at any given time. In accordance with the convention currently in force, the €STR for a given TARGET Business Day is published around 8:00 a.m. (CET) on the immediately following TARGET Business Day. In the event that the ECB makes a new publication of the €STR on the same TARGET Business Day to correct an error in the previous publication, the new published €STR will be used.

With respect to its application in the calculation of interest on transactions, the different union and regulatory working groups have proposed different calculation approaches, depending on the moment in which the interest rate is set in relation to the maturity date of the interest payment.

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Summary: Calculation methodologies

Based on the Secured Overnight Financing Rate (SOFR) methodology, various interest calculation approaches have been put in place for simple or compounded RFRs, depending on when the interest will be 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 Payment	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.	Real	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 (of suspension periods)	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.
Hybrid models	Hybrid models are designed to offer borrowers sufficient advance notice of payments, but structuring capital and interest under the In Arrears methodology.	Principal payment	Payment of the period is fixed in advance (In Advance) but the capital and accrued interest are calculated in Arrears, adjusting the difference on the outstanding capital.
		Interest rollover	Payment of the period is fixed in advance (In Advance) transferring to the next period the interest pending from the calculation in Arrears.

Specifically, in connection with the calculation methodologies for the application of the SOFR, the main references to be applied by the Institution are:

1. SOFR Term

“SOFR Term” is the annual interest rate (CME Term SOFR Reference Rates) with a term equal to the Term of the SOFR Rate, issued based on the Secured Overnight Financing Rate, published two SOFR Business Days prior to the start of the relevant Interest Period by CME Group Benchmark Administration Limited (CBA), as the administrator of that indicator (or its successor), on the CME Group Inc. website, currently <https://www.cmegroup.com/market-data/cme-group-benchmark-administration/term-sofr.html#> or its successor page.

2. SOFR Simple in advance

“SOFR Simple in Advance” for each Interest Period, is the interest rate, in annual terms, resulting from the sum of: (i) the simple arithmetic mean of the published SOFR value, on each SOFR Business Day during a previous period equal to the number of calendar days of the Interest Period and ending two Business Days before the beginning of the Interest Period in question, plus (ii) the Margin.

In the following table contains a list of the methodologies available in the systems within the different segments by type of product.

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Type of Product	Segment	Methodology
Simple Loans	Corporate Banking	SOFR Simple in advance SOFR Term
Simple Loans	SME Banking	SOFR Simple in advance SOFR Term
Simple Loans	Enterprises and Government Banking	SOFR Simple in advance SOFR Term
Simple Loans	Commercial Banking	SOFR Simple in advance SOFR Term
Complex and structured loans	Corporate Banking	SOFR Simple in advance SOFR Compounded in advance SOFR Simple in Arrears Lookback (narrowly defined) SOFR Simple in Arrears Lookback Observation shift period SOFR Compounded in Arrears Lookback (narrowly defined) SOFR Compounded in Arrears Lookback Observation shift period SOFR Term SONIA Simple in advance SONIA Compounded in advance SONIA Simple in Arrears Lookback (narrowly defined) SONIA Simple in Arrears Lookback Observation shift period SONIA Compounded in Arrears Lookback (narrowly defined) SONIA Compounded in Arrears Lookback Observation shift period SONIA Term

(37) Regulatory pronouncements recently issued

I. Regulatory changes in the adoption of FRSs

Pursuant to publications in the Official Gazette of the Federation (for its acronym in Spanish “DOF”) dated December 4, 2020 and December 30, 2021, the Commission announced the obligation, effective January 1, 2022, to adopt the following Mexican FRS issued by the CINIF: B-17 “Fair value measurement”, C-3 “Accounts receivable”, C-9 “Provisions, contingencies and commitments”, C-16 “Impairment of financial instruments receivable”, C-19 “Financial instruments payable”, C-20 “Financial instruments to collect principal and interest”, D-1 “Revenue from contracts with clients”, D-2 “Costs from contracts with clients” and D-5 “Leases”. Also the application of Mexican FRS C-2 “Investment in financial instruments”, Mexican FRS C-10 “Derivative financial instruments and hedging relationships” and Mexican FRS C-14 “Derecognition and transfer of financial assets” replacing accounting criteria B-2 “Investments in securities”, B-5 “Derivatives” and Accounting Criteria to Specific Criteria of the C series. Pursuant to the transitory articles mentioned in the Banking Regulations, and as a practical solution, in the application of the modified accounting criteria in appendix 33 of the Banking Regulations, credit institutions may recognize as the date of initial application, which is, January 1, 2022, the cumulative effect of the accounting changes. Also, the consolidated, quarterly and annual, financial statements required to credit institutions under the Banking Regulations for the period ended December 31, 2022, should not be presented comparative with each quarter of the year 2021 and for the year ended December 31, 2021.

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It is worth mentioning that the DOF issued on September 23, 2021, the resolution that modifies the Banking regulations, published on March 13, 2020, where a provision was granted to continue using during 2022, the contractual interest rate for the accrual of interest on the loan portfolio, as well as the application of the straight-line method for the recognition of origination fees and the accrual of transaction costs, as provided by accounting criteria B-6 in force until December 31, 2021, with such circumstance required to be disclosed in the 2022 quarterly and annual financial statements.

Also, it must apply the “Clarifications to Specific Rules”, which the Regulator considers necessary given the specialized transactions of the financial sector. Identifying, as the most relevant rules, that the loan portfolio should not be included in the scope of Mexican FRS C-20 and shall follow the guidelines and modifications of the new criteria B-6 “Loan portfolio”, the specifications to Mexican FRS C-16 in the scope and determination of the allowance for loan losses and clarifications to Mexican FRS D-5 “Leases”, as specified in section b) of said Note.

- i) Below is a brief description of the Mexican FRS effective on January 1, 2022, which are incorporated into the accounting criteria of the previous amending resolutions, together with the application of the Clarification to Specific Rules of the Accounting Criteria of the regulators and the Accounting Bulletins of particular rules:

Mexican FRS B-17 “Fair value measurement” – FRS B-17 must be applied in determining the fair value. This FRS provides for the valuation and disclosure standards in the determination of the fair value, in its initial and subsequent recognition, if the fair value is required or permitted by other specific FRSs. Where applicable, changes in valuation or disclosure should be recognized prospectively. It defines fair value as the exit price that would be received for selling an asset or paid to transfer a liability in an orderly transaction between market participants at the valuation date. It is mentioned that fair value is a determination based on the market and not on a specific value of an asset or a liability and that when determining fair value, the entity must use assumptions that market participants would use when setting the price of an asset or a liability under current market conditions at a given date, including assumptions about the risk. As a result, the Institution’s intention to hold an asset or liquidate, or otherwise satisfy a liability, is not relevant in the determination of fair value.

Clarifications adjusting the specific rules of recognition, valuation, presentation and, where appropriate, disclosure of this Mexican FRS, which are mandatory to the Institution, are as follows:

In determining fair value, the following must be considered:

- (a) With respect to the financial instruments referred to in sections I to III of Article 175 Bis 2 of the Banking Regulations, the provisions of this Mexican FRS shall not apply, and the provisions of Parts A and B of Chapter I, Section Two, Title Three, of the Banking Regulations.
- (b) With respect to financial instruments other than those indicated in the preceding paragraph, as well as virtual assets, in addition to the provisions of Part C of Chapter I, Section Two, Title Three, of the Banking Regulations, the provisions of Mexican FRS B-17 must be considered.

Updated prices for valuation determined using internal valuation models cannot be classified as Level 1.

Additionally, the following disclosures are required:

- i. The type of virtual asset and/or financial instrument to which an internal valuation model is applicable.

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- ii. When the volume or level of activity has decreased significantly, the adjustments that have been applied to the valuation adjusted price must be explained.

With respect to assets or liabilities other than those indicated in the previous sections, Mexican FRS B-17 must be applied when other specific Mexican FRS requires or allows fair value valuations and/or disclosures thereon.

Management recognized the initial effect of the entry into force of this standard, which it considers immaterial for the purposes of the financial statements as a whole.

Mexican FRS C-2 “Investment in financial instruments” – The Accounting Criteria issued by the Commission “Investments in securities” (B-2) is repealed and it is provided that the Mexican FRS C-2 must be applied, in connection with the application of the rules related to the registration, valuation and presentation in the financial statements of its investments in financial instruments as follows:

- Eliminates the concept of intention for the classification of instruments.
- The business model concept is adopted for the classification and measurement of financial instruments as follows:
 - If the business model is to generate a profit through receiving cash flows of a contractual return on financial instruments, they are recognized at amortized cost, and are called financial instruments to collect principal and interest.
 - If the business model is to generate a profit through a contractual return and sell them at the right time, they are recognized at fair value through OCI and are called financial instruments to collect or sell.
 - If the business model is to generate a profit based on their purchase and sale, these instruments are recognized based on their fair value, but through net profit or loss, and are called negotiable financial instruments.
- The reclassification of investments in financial instruments between the categories of financial instruments receivable, financial instruments to collect or sell and negotiable financial instruments is not allowed, unless the entity’s business model changes.
- Adopts the principle that all instruments are valued on initial recognition at fair value. Therefore, if there is an acquisition of a financial instrument at a price other than observable market prices, said value must be adjusted to observable market prices immediately.

Clarifications adjusting the specific rules of recognition, valuation, presentation and, where appropriate, disclosure of this Mexican FRS, which are mandatory to the Institution, are as follows:

- The exception to irrevocably designate, in its initial recognition, a financial instrument to collect or sell to be subsequently valued at fair value with effects on net income referred to in Mexican FRS C-2 will not be applicable to the entities.
- Expected loan losses due to impairment of investments in financial instruments to collect or sell must be determined in accordance with the provisions of Mexican FRS C-16.

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– Reclassifications:

Entities that carry out reclassifications of their investments in financial instruments under the Mexican FRS C-2 must report it in writing to the Commission within 10 business days following the authorization issued for such purposes by their Risk Committee, stating in detail the change in the business model that justifies them.

Management recognized the initial effect of the entry into force of this standard, which it considers immaterial for the purposes of the financial statements as a whole.

Mexican FRS C-3 “Accounts receivable” – This FRS will only be applicable to the “other accounts receivable” referred to in paragraph 20.1 of said FRS. The main characteristics issued for this Mexican FRS, are shown below:

- It cancels Bulletin C-3 “Accounts receivable”.
- Specifies that accounts receivable that are based on a contract represent a financial instrument, while some of the other accounts receivable generated by a legal or fiscal provision may have certain characteristics of a financial instrument, such as generating interest, but they are not financial instruments in themselves.
- It states that the allowance for collectability for trade accounts receivable is recognized from the moment in which the income accrues, based on the expected credit losses.
- It states that, since the initial recognition, the value of money over time should be considered, so if the effect of the present value of the account receivable is important in consideration of its term, it should be adjusted based on said present value. The effect of the present value is material when the collection of the account receivable is agreed, totally or partially, for a term greater than one year, since in these cases there is a financing transaction. The accounting changes that arise must be recognized retrospectively; however, the valuation effects can be recognized prospectively.

Clarifications adjusting the specific rules of recognition, valuation, presentation and, where appropriate, disclosure of this Mexican FRS, which are mandatory to the Institution, are as follows:

For the purposes of Mexican FRS C-3, accounts receivable from transactions that relate to the following should not be included:

- Criteria B-3 “Repurchases”, B-4 “Securities lending” and B-6 “Loan portfolio”, issued by the Commission.
- Those corresponding to acquired collection rights defined in Criterion B-6, and paragraph 72 of this criterion, relating to accounts receivable from operating leases.

This, since the applicable recognition, valuation, presentation and disclosure standards are already contemplated in them.

Transactions between the entity and its agencies and branches

Items resulting from transactions between the entity and its agencies and branches will be cleared at least at the end of each month, so they should not present any balance on that date.

Management recognized the initial effect of the entry into force of this standard, which it considers immaterial for the purposes of the financial statements as a whole.

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Mexican FRS C-9 “Provisions, contingencies and commitments” – It cancels Bulletin C-9 “Liabilities, provisions, contingent assets and liabilities and commitments”, its scope is reduced by relocating the topic related to the accounting treatment of financial liabilities in the Mexican FRS C-19 “Financial instruments payable” and the definition of liability is modified by eliminating the qualifier “virtually unavoidable” and including the term “probable”.

Clarifications adjusting the specific rules of recognition, valuation, presentation and, where appropriate, disclosure of this Mexican FRS, which are mandatory to the Institution, are as follows:

- The provisions of Mexican FRS C-9 will not be applicable in determining the guarantees (*avales*) granted, in which case the provisions of B-8 “Guarantees” will apply.
- Letters of credit.

Letters of credit issued by the entity upon receipt of its amount are subject to Mexican FRS C-9.

The liability arising from the issuance of the letters of credit referred to in the preceding paragraph will be presented in the statement of financial position, under other accounts payable.

Management recognized the initial effect of the entry into force of this standard, which it considers immaterial for the purposes of the financial statements as a whole.

Mexican FRS C-10 “Derivative financial instruments and hedging relationships” – Its objective is to provide for the valuation, presentation and disclosure standards for the initial and subsequent recognition of derivative financial instruments (DFI) and hedging relationships in the Institution’s financial statements. The main characteristics issued for this Mexican FRS are shown below:

- Alignment of hedging relationships with the risk management strategy that the entity has established and disclosed is required for them to qualify as hedging relationships. If they are not aligned, they are considered not to qualify as such and are not recognized as hedging relationships.
- Specific measures are no longer used to determine whether a hedge is effective, as in the case that periodic or accumulated variations in the fair value of the hedging instrument should be in a ratio between 80% and 125% with respect to the variations in the hedged item. Any ineffectiveness is immediately recognized in net profit or loss.
- It states that, upon designation of one or more hedging relationships, relationships may not be discontinued by Management decision, so long as the hedging relationship is complying with the risk management strategy the entity has established and disclosed. It is only discontinued if the hedging instrument or hedged item ceases to exist or if the risk management strategy changes.
- Rebalancing the hedging ratio is required if there is ineffectiveness, either by increasing or decreasing the hedged item or hedging instrument.
- Separation of embedded derivative financial instruments existing when the host instrument is a financial asset is not permitted, because it is considered that, if the amount of the hybrid contract is to be modified, the modified amount will be charged.

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- It allows to designate a net income and expense position as a hedged item, so long as that designation reflects the entity's risk management strategy.

Clarifications adjusting the specific rules of recognition, valuation, presentation and, where appropriate, disclosure of this Mexican FRS, which are mandatory to the Institution, are as follows:

In addition to the terms included in Mexican FRS C-10 and defined in the glossary contained in Mexican FRS, the term spot price is defined, and it is specifically mentioned that with respect to foreign currency, the spot price will be the closing exchange rate.

The term credit derivative financial instruments is defined, stating that they are two types:

- (a) Credit Default Derivative Financial Instruments: Contracts in which only the risk of default in financial assets is transferred to the counterparty, such as in credit transactions or in the early amortization of securities.
- (b) Total Return Derivative Financial Instruments: Contracts in which, in addition to exchanging flows of interest or returns inherent to financial assets, such as a credit transaction or the issuance of securities, their market and credit risks are transferred.

Fair value hedge for interest rate risk of a portion of a portfolio made up of financial assets or financial liabilities

In this type of specific hedge, entities are required meet each of the following conditions:

- (a) At the beginning of the hedge there must be a formal designation and sufficient documentation of the hedging relationship, as well as the risk management objectives and strategy of the entity with respect to the hedge.
- (b) The hedge must be highly effective.
- (c) The effectiveness of the hedge must be reliably measurable.
- (d) The hedge must be evaluated continuously (at least quarterly) and must maintain high effectiveness throughout all the periods in which the designation of the hedging relationship is shown in the entity's financial information.

To be recognized in the books, the gain or loss in the hedging of the hedged risk, it can be fulfilled by presenting the adjustment to the carrying value of the item hedged by the gain or loss recognized in the results of the period, either:

- (a) in a separate line within assets of the statement of financial position, during the review periods of the portfolio interests where the hedged item is an asset, or
- (b) in a separate line within liabilities of the statement of financial position, during the review periods of the portfolio interests where the hedged item is a liability.

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The lines of assets or liabilities in the statement of financial position, indicated above, must be amortized in the results of the period. Amortization should begin as soon as the adjustment occurs, but in no event after the hedged item ceases to be adjusted for changes in the fair value attributable to the hedged risk. The adjustment shall be based on the recalculated effective interest rate on the date amortization begins. However, if it is impractical to amortize using the recalculated effective interest rate, the adjustment may be amortized using the straight-line method. The adjustment must be fully amortized on the maturity date of the hedged item in question, or at the end of the interest review period.

In this type of hedge, the entity will comply with the hedging requirements if it observes specific procedures provided for in the clarifications to the specific rules for the application of Mexican FRS C-10 issued by the Commission.

Presentation in the statement of financial position

With respect to structured transactions, the presentation of the portion or portions of the derivative financial instruments will be made separately from that of the main contract, and the presentation guidelines will be followed according to the type or types of financial assets (or non-derivative financial liabilities), as well as derivative financial instruments included in the structured transaction.

With respect to pools of derivative financial instruments listed on a recognized market as a single instrument, said pool will be presented together (that is, without disaggregating each derivative financial instrument individually), in the category of derivative financial instruments (debtor balance), or derivative financial instruments (creditor balance), in the statement of financial position.

With respect to pools of derivative financial instruments not listed on any recognized market, their presentation in the statement of financial position of the entities will follow the guidelines for each derivative financial instrument individually, in the category of derivative financial instruments (debit balance), or derivative financial instruments (credit balance), as appropriate.

In a fair value hedge for interest rate risk of a portion of a portfolio made up of financial assets or financial liabilities (and only in this specific type of hedge), the adjustment to the carrying value of the item hedged by the gain or loss recognized in the results of the period, will be presented under valuation adjustments for financial assets hedging, or valuation adjustments for financial liabilities hedging, as the case may be, immediately after the relevant financial assets or financial liabilities.

Presentation in the statement of comprehensive income

In a fair value hedge for interest rate risk of a portion of a portfolio made up of financial assets or financial liabilities (and only in this specific type of hedge), the result from the valuation of the hedged item attributable to the hedged risk must be presented, if identifiable, where the result by valuation of each one of the hedged items is presented. If not identifiable, said valuation effect must be presented in the item where the valuation result of the most relevant hedged item is presented in accordance with the provisions of the applicable accounting criteria (for example, if the portfolio of financial assets corresponds mostly to investments in securities, the valuation effect must be presented in "Financial Intermediation Income"). The initial impact due to the entry into force of this standard mainly represents effects of presentation and disclosure of information in the financial statements.

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Mexican FRS C-13 “Related parties” – Clarifications adjusting the specific rules of recognition, valuation, presentation and, where appropriate, disclosure of this Mexican FRS, which are mandatory to the Institution, are as follows:

For purposes of complying with the disclosure standards contained in Mexican FRS C-13, entities must additionally consider as related party:

- (a) the members of the board of directors of the holding company or financial entities and companies that are members of the Institution to which, if applicable, it belongs;
- (b) persons other than key management personnel or relevant executives or employees who, with their signature, may bind the entity;
- (c) legal entities in which key management personnel or relevant executives of the entity are directors or administrators or hold any of the first three hierarchical levels in said legal entities, and
- (d) legal entities in which any of the persons indicated in the preceding paragraphs, as well as in Mexican FRS C-13, have power of command, this being understood as the *de facto* capacity to decisively influence the resolutions adopted at shareholders’ meetings or meetings of the board of directors or by the management, conduct and execute the business of the entity in question or of the legal entities it controls.

In addition to the disclosures required by Mexican FRS C-13, entities must disclose, in aggregate form, through notes to the financial statements, information of any transactions between related parties, including:

- (a) A generic description of the transactions, such as:
 - loans made or received,
 - transactions with financial instruments where the issuer and holder are related parties,
 - repurchases or resales,
 - securities lending,
 - derivative financial instruments,
 - hedging transactions,
 - sale and acquisition of loan portfolio, and
 - those carried out through any person, trust, entity or other, when the counterparty and source of payment of said transactions depend on a related party;
- (b) any other information necessary to fully understand the transaction, and
- (c) the full amount of employee benefits provided to key management personnel or relevant executives of the entity.

Disclosure is only required for transactions with related parties that represent more than 1% of the net capital of the month prior to the date of preparation of the relevant financial information. The net capital will be determined in accordance with the capital requirements in the Banking Regulations.

Management recognized the initial effect of the entry into force of this standard, which it considers immaterial for the purposes of the financial statements as a whole.

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Mexican FRS C-14 “Derecognition and transfer of financial assets” – The main change in this standard related to the principle of transfer of risks and benefits of ownership of the financial asset, as a fundamental condition for derecognizing it. This means that when commercial, industrial and service entities discount accounts or documents receivable with recourse, they may not present the amount of the discount as a credit to the accounts and documents receivable, but rather as a liability. Similarly, financial entities may not derecognize the financial asset with a mere transfer of control over the asset.

Clarifications adjusting the specific rules of recognition, valuation, presentation and, where appropriate, disclosure of this Mexican FRS, which are mandatory to the Institution, are as follows:

- With respect to the collateral received referred to in paragraph 44.7 of Mexican FRS C-14, the receiver is required to recognize the collateral received in memorandum accounts. In cases where the receiver has the right to sell or pledge the collateral, the transferor must reclassify the asset in its statement of financial position, presenting it as restricted.

Recognition of financial assets

Recognition rules exist for the receiving entity in cases where the transfer results in a derecognition of the financial asset by the transferor.

Management recognized the initial effect of the entry into force of this standard, which it considers immaterial for the purposes of the financial statements as a whole.

Mexican FRS C-16 “Impairment of financial instruments receivable” – It states that, to determine the recognition of the expected loss, the historical experience of the credit loss entity, the current conditions and the reasonable and sustainable forecasts of the different quantifiable future events that could affect the amount of future cash flows to be recovered from financial instruments receivable (IFC) must be considered.

It also indicates that the expected loss should be recognized when, as the credit risk has increased, it is concluded that part of the financial instruments receivable’s future cash flows will not be recovered.

Clarifications adjusting the specific rules of recognition, valuation, presentation and, where appropriate, disclosure of this Mexican FRS, which are mandatory to the Institution, are as follows:

- For the purposes of Mexican FRS C-16, assets derived from transactions referred to in B-6, issued by the Commission, should not be included, since the standards for the valuation, presentation and disclosure of such assets are contemplated in the aforementioned criterion.
- Allowance for expected loan losses. It states that for accounts receivable other than a credit portfolio, allowances must be established that reflect the degree of irrecoverability in accordance with Mexican FRS C-16.
- Overdrafts in checking accounts of the entity’s customers, who do not have a line of credit for such purposes, will be classified as past due debts and the entities are required to establish, simultaneously with said classification, an allowance for the full amount of said overdraft, at the time such an event occurs.

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- Regarding transactions with uncollected documents for immediate collection referred to in B-1 “Cash and cash equivalents”, 15 calendar days following the date on which they have been transferred to the item that originated them, they will be classified as past due debts and their allowance must be established simultaneously for the full amount thereof.
- The collection rights acquired by the entity that relate to the events mentioned in paragraph 23 of B-6 must be considered financial instruments receivable with high credit risk (stage 3), and may not be subsequently transferred to another stage.
- For purposes of determining the amount of the expected credit loss referred to in paragraph 45.1.1 of Mexican FRS C-16, the effective interest rate used to determine the present value of the cash flows to be recovered must be adjusted when it is decided to modify said rate in accordance with the provisions of paragraph 61 of this criterion. When the entity uses the practical solutions referred to in paragraph 42.6 of Mexican FRS C-16, the creation of allowances shall be for the full amount of the debt and shall not exceed the following terms:
 - (a) 60 calendar days after their initial registration, when they relate to unidentified debtors, and
 - (b) 90 calendar days after their initial registration, when they relate to identified debtors,
 - (c) no allowance for expected loan losses will be created for:
 - balances for taxes payable, and
 - creditable value added tax.

Expected loan losses due to the impairment of investments in financial instruments as indicated in section 45 of Mexican FRS C-2 must be determined in accordance with the provisions of Mexican FRS C-16. In this regard, although the Commission does not establish specific methodologies for their determination, it would be expected that the expected loan losses due to the impairment of securities issued by a counterparty are consistent with the impairment determined for loans made to the same counterparty.

With respect to the determination of the estimated impact on the Financial Statements on the transition date, the Institution will apply the rating methodologies to make up the amount of reserves of financial assets under Bulletin B-6 “Loan Portfolio” and the guidelines for the Banking Regulations applicable as of January 1, 2022, as follows:

- (a) Internal Reserve Methodologies based on Mexican FRS C-16 for all the relevant Modelable Portfolios: Credit Card, Enterprises, Large Enterprises, Mortgages, Non-Revolving Consumer, and Small and Medium-Size Enterprises, both for the portfolios that are authorized and those in the process of authorization for the use of a Model based on internal ratings for the capital requirement; with a prior notice to the Commission and once said regulator authorized the implementation plan in January 2022, with the commitment that said methodologies be adopted effective January of 2022; and
- (b) General Standard Methodology contained in Chapter V Bis of Title Two of the Banking Regulations, for loans belonging to portfolios not included in the relevant Modelable Portfolios, such as portfolios of: Financial Institutions, States and Municipalities, Promoters and Investment Projects.

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For the recognition of the transition effect and in accordance with the Resolution amending the General regulations applicable to Credit Institutions published in the Official Gazette of the Federation on Friday, December 4, 2020, Management chose to make the recognition in the stockholders' equity, within the result of previous years, as of January 31, 2022. Management recognized the initial cumulative effect of the entry into force of this standard in an amount of \$5,408 net of deferred PTU and ISR, with a charge in the results of previous years and a credit to the allowance for loan losses. The initial cumulative financial effect should be understood as the difference resulting from subtracting on the same date the reserves that must be created, applying the methodologies in force as of January 1, 2022, minus the reserves that would be held for the balance of said portfolio, with the methodologies in force until December 31, 2021.

Regarding the determination of the impairment applicable to investments in financial instruments as indicated in section 45 of Mexican FRS C-2, the Management has determined the loan losses in accordance with the provisions of Mexican FRS C-16 and is consistent with the loan portfolio rating methodology. Management recognized the initial effect of the entry into force of this standard, which it considers immaterial for the purposes of the financial statements as a whole.

Mexican FRS C-19 “Financial instruments payable” – The main characteristics issued for this Mexican FRS are shown below:

- Provides for the possibility of valuing certain financial liabilities at fair value, upon satisfaction of certain conditions, after their initial recognition.
- Value long-term liabilities at their present value at initial recognition.
- When restructuring a liability, without substantially modifying the future cash flows to settle the same, the costs and commissions paid in this process will affect the amount of the liability and be amortized over a modified effective interest rate, instead of affecting directly the net profit or loss.
- Incorporates the provisions of IFRIC 19 “Extinguishing Financial Liabilities with Equity Instruments”, a topic not included in the existing regulations.
- The effect of extinguishing a financial liability must be presented as a financial result in the statement of comprehensive income.
- Introduces the concepts of amortized cost to value the financial liabilities and the effective interest method, based on the effective interest rate.

Clarifications adjusting the specific rules of recognition, valuation, presentation and, where appropriate, disclosure of this Mexican FRS, which are mandatory to the Institution, are as follows:

- For the purposes of Mexican FRS C-19, the liabilities related to the transactions referred to in B-3 and B-4 are not included, as they are already contemplated in said criteria.
- Initial recognition of a financial instrument payable.

The provisions of paragraph 41.1.1, number 4, of Mexican FRS C-19 will not apply regarding the use of the market rate as the effective interest rate in the valuation of the financial instrument payable when both

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rates are substantially different.

- Financial instruments payable valued at fair value.

The exception to irrevocably designate in its initial recognition a financial instrument payable to be subsequently valued at fair value with effects on the net result referred to in section 42.2 of Mexican FRS C-19 will not be applicable to entities.

Management recognized the initial effect of the entry into force of this standard, which it considers immaterial for the purposes of the financial statements as a whole.

Mexican FRS C-20 “Financial instruments to collect principal and interest” – The main characteristics issued for this Mexican FRS, are shown below:

- The manner of classifying financial instruments in assets is modified, as the concept of intention to acquire and hold them is discarded to determine their classification, instead the concept of management’s business model is adopted.
- This classification groups financial instruments the purpose of which is to collect the contractual cash flows and obtain a gain for the contractual interest they generate, having a loan characteristic.
- They include financial instruments generated by sales of goods or services, financial leases or loans, as well as those acquired in the market.

Clarifications adjusting the specific rules of recognition, valuation, presentation and, where appropriate, disclosure of this Mexican FRS, which are mandatory to the Institution, are as follows:

- For the purposes of Mexican FRS C-20, the assets originated by the transactions referred to in B-6, issued by the Commission, should not be included, since the recognition, valuation, presentation and disclosure standards for the initial and subsequent recognition of such assets are already contemplated in said criterion.
- Initial recognition of a financial instrument to collect principal and interest. The provisions of paragraph 41.1.1 number 4 of Mexican FRS C-20 will not apply regarding the use of the market rate as the effective interest rate in the valuation of the financial instrument to collect principal and interest when both rates are substantially different.
- Collection rights. For purposes of recognizing the effective interest, the effective interest rate of the collection rights may be adjusted periodically to recognize the variations in the estimated cash flows to be received.
- Fair Value Option. The option to irrevocably designate in its initial recognition a financial instrument to collect principal and interest, to be subsequently valued at fair value with effects on the net result referred to in paragraph 41.3.4 of the Mexican FRS C-20, will not be applicable.
- Loans to officers and employees. The interest originated from loans to officials and employees will be presented in the statement of comprehensive income under other income (expenses) of the transaction.

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- Loans to retirees. Loans to retirees will be considered part of the loan portfolio, and must adhere to the guidelines of criterion B-6, except when, as with active employees, the collection of said loans is made directly, in which case they will be recorded in accordance with the guidelines applicable to loans to officers and employees.

Management recognized the initial effect of the entry into force of this standard, which it considers immaterial for the purposes of the financial statements as a whole.

Mexican FRS D-4 “Income Tax” – Clarifications adjusting the specific rules of recognition, valuation, presentation and, where appropriate, disclosure of this Mexican FRS, which are mandatory to the Institution, are as follows:

Regarding the disclosure required under Mexican FRS D-4 of temporary differences, those differences related to the financial margin and the main transactions of the entities must also be disclosed.

Management recognized the initial effect of the entry into force of this standard, which it considers immaterial for the purposes of the financial statements as a whole.

Mexican FRS D-1 “Revenue from contracts with clients” – The main characteristics issued for this Mexican FRS are shown below:

- The transfer of control, basis for the opportunity of revenue recognition.
- The identification of the obligations to fulfill in a contract.
- The allocation of the transaction price between the obligations to be fulfilled based on the independent sale prices.
- The introduction of the concept of conditioned account receivable.
- The recognition of collection rights.
- The valuation of income.

Management recognized the initial effect of the entry into force of this standard, which it considers immaterial for the purposes of the financial statements as a whole.

Mexican FRS D-2 “Income, costs from contracts with clients” – The main change in this standard is the separation of the regulations regarding the recognition of revenues from contracts with clients of the regulations corresponding to the recognition of costs for contracts with clients.

Management recognized the initial effect of the entry into force of this standard, which it considers immaterial for the purposes of the financial statements as a whole.

Mexican FRS D-5 “Leases” – The application for the first time of this Mexican FRS generates accounting changes in the financial statements mainly for the lessee and grants different options for recognition. Among the main changes are the following:

- Eliminates the classification of leases as operative or capitalizable for a lessee, and the latter must recognize a lease liability to the present value of the payments and an asset for the right of use for that same amount, of all the leases with a duration greater than 12 months, unless the underlying asset is of low value.

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- An expense is recognized for depreciation or amortization of assets for right of use and an interest expense on lease liabilities.
- It modifies the presentation of the related cash flows since the cash flow outflows of the operating activities are reduced, with an increase in the outflows of cash flows from the financing activities.
- Modifies the recognition of the gain or loss when a seller-lessee transfers an asset to another entity and leases that asset back.
- The accounting recognition by the lessor does not change in relation to the previous Bulletin D-5, and only some disclosure requirements are added.

Clarifications adjusting the specific rules of recognition, valuation, presentation and, where appropriate, disclosure of this Mexican FRS, which are mandatory to the Institution, are as follows:

Finance leases

The provisions of this Mexican FRS will not be applicable to loans made by the entity for finance lease transactions, subject manner of B-6, with the exception of the provisions of paragraph 67 of B-6.

For the purposes of the provisions of paragraph 42.1.4, subsection c) and subsection d) of Mexican FRS D-5, it will be understood that the term of the lease covers most of the economic life of the underlying asset, if said lease covers the least 75% of its useful life. Also, the present value of the lease payments is substantially the entire fair value of the underlying asset, if said present value constitutes at least 90% of said fair value.

Operating leases

Accounting for lessor

In the amount of amortizations that have not been settled within a period of 30 calendar days following the due date of the payment, lessor must create the relevant allowance, suspending the accumulation of income, including control thereof in memorandum accounts under “Other registration accounts”.

Lessor must present in the statement of financial position the account receivable under “Other registration accounts”, and the rental income under “Other income (expenses)” of the transaction in the statement of comprehensive income.

Regarding the estimated impact on the Financial Statements on the transition date, the Institution has chosen to apply the provisions of Article Transitory Eight of the Resolutions (DOF, December 4, 2020), which consists of recognizing lease liabilities in an amount equal at the current value of the future payments committed as of January 1, 2022. With respect to the asset, it has been decided to record right-of-use assets in an amount equal to the lease liabilities. As a result, the Institution has determined that the initial impact and recognized right-of-use assets and lease liabilities is an approximate amount of \$4,227, mainly from the branch network premises.

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The initial impact disclosed in this note is undergoing a process of calibration and is subject to modifications until the Institution presents its first financial statements of 2022 that include the definitive impact at the date of initial application.

- ii) The main amendments to the Standards regarding recognition, valuation, presentation and disclosure applicable to specific items of the financial statements are detailed below:

A. B-1 “Cash and cash equivalents”

It states to include within this item of the financial statements the “cash equivalents”, which are short-term, highly liquid securities, easily convertible into cash, subject to immaterial risks of changes in their value and held to meet short-term commitments other than for investment purposes; they can be denominated in Mexican or foreign currency; for example, interbank loan transactions agreed for a term of less than or equal to three business days, the purchase of foreign currency that are not considered derivative financial instruments as provided by the Central Bank in the applicable regulation, as well as other cash equivalents such as correspondents, documents of immediate collection, precious metals and highly liquid financial instruments.

Highly liquid financial instruments are securities the disposal of which is expected within a maximum of 48 hours from their acquisition, generate returns and have immaterial risks of changes in value.

Management recognized the initial effect of the entry into force of this standard, which it considers immaterial for the purposes of the financial statements as a whole.

B. B-4 “Repurchase/resale transactions”

It states that for purposes of offsetting financial assets and liabilities, with the entity acting as buyer, the provisions of Mexican FRS B-12 “Offsetting financial assets and financial liabilities” must be followed.

It requires disclosing the rates agreed in the relevant transactions.

Management recognized the initial effect of the entry into force of this standard, which it considers immaterial for the purposes of the financial statements as a whole.

C. B-6 “Loan portfolio”

The main amendments to B-6 are as follows

- Definitions. New accounting definitions are included to ensure the incorporation of international accounting criteria, such as: Portfolio with stage 1, 2 and 3 credit risk, amortized cost, transaction costs, effective interest rate, effective interest method.
- Standards of recognition and valuation:

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Business Model:

- In determining the business model (BM) used by the Entity to administer and manage the loan portfolio and whether contractual cash flows will be obtained from the flows, from the sale of the loan portfolio, or both. It states that the BM is a question of facts and not of an intention or affirmation.
- It states that the loan portfolio must be recognized under B-6 if the objective of the BM is to keep it to collect the contractual cash flows and the terms of the contract provide for cash flows on pre-established dates that correspond only to payments of principal and interest on the principal amount outstanding. That if this is not fulfilled, it must be dealt with in accordance with the provisions of Mexican FRS C-2, "Investment in financial instruments".
- It provides for the criteria to identify the considerations to determine the realization of the contractual cash flows of the loan portfolio, either through collection or sale. Although it states that sales do not determine the BM, it clarifies that a historical analysis of past sales and expectations of future sales must be conducted.
- It states that the BM may be to keep the loan portfolio to collect its cash flows, even if the entity sells it when there is an increase in its credit risk and indicates that there is no inconsistency when sales are made of the high risk portfolio. In determining the business model (BM) used by the Entity to administer and manage the loan portfolio and whether the payments will come from contractual cash flows, from the sale of the loan portfolio, or from both. It states that the BM is a question of facts and not of an intention or affirmation.

Initial recognition:

- It states that the balance in the loan portfolio will be the amount effectively granted to the borrower and will be recorded separately from the transaction costs, as well as the items collected and defined in the bulletin, which will be recognized as a charge or deferred credit, as appropriate, and amortized against the results of the year during the life of the loan, according to the effective interest rate.
- It provides for the mechanism for determining and recording the effective interest rate.
- Regarding reclassifications of the loan portfolio measured at amortized cost, it will be allowed if the BM is changed. It indicates that these changes must be infrequent and determined by the highest authority of the entity. The modification of the BM must be communicated to the Commission (within 10 business days following its determination) and must be registered prospectively without modifying previously recognized results.

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Subsequent recognition:

- It states that the loan portfolio must be valued at its amortized cost, which includes increases due to effective interest accrued, decreases due to the amortization of transaction costs and items collected in advance, as well as decreases due to collections of principal and interest and for the allowance for loan losses.
- It states that the commissions recognized after the making of the loan, as part of the maintenance of said loans, and those of loans that have not been placed, will be recognized against the results of the year on the date they are accrued.

Loan portfolio renegotiations:

- It states that, if an Entity restructures a loan with credit risk stages 1 and 2, or partially liquidates it through a renewal, it must determine the profit or loss in the renegotiation as follows:
 - a) It determines the carrying value of the loan without considering the allowance of loan losses;
 - b) It determines the new future cash flows on the restructured or partially renewed amount, discounted at the original effective interest rate, and
 - c) It recognizes the difference between the carrying value and the cash flows determined in subparagraph b) above as a deferred charge or credit against the profit or loss from loan portfolio renegotiation in the statement of comprehensive income.

Other considerations:

- It establishes that the unpaid balance of loans denominated in VSMS or UMAs will be valued based on the relevant minimum wage or UMAs in accordance with A-3 "Application of general rules", recognizing the adjustment for the increase as part of the cost amortized against the results of the year.

It provides for the categorization of the loan portfolio by level of credit risk:

- Portfolio with stage 1 credit risk

Loans made and acquired by the entity will be recognized in this category, as long as they do not meet the categorization criteria referred to in the sections Transfer to loan portfolio with stage 2 credit risk and Transfer to loan portfolio with stage 3 credit risk.

Loans that meet the conditions to be considered stage 2 credit risk may remain in stage 1 when compliance with the requirements contained in the Banking Regulations is proven, which must be duly documented in the risk policies.
- Transfer to loan portfolio with stage 2 credit risk

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Loans must be recognized as a loan portfolio with stage 2 credit risk, in accordance with the provisions of the Banking Regulations, with the exception of the loans described in the paragraph corresponding to the guidelines for applying the registration of Transfer to loan portfolio with stage 3 credit risk.

- Transfer to loan portfolio with stage 3 credit risk

The unpaid balance in accordance with the payment conditions in the loan agreement must be recognized as a loan portfolio with stage 3 credit risk, as provided in paragraph 91. It is worth mentioning that the revolving consumer portfolio product is modified to remain in this stage when it maintains 90 days of past due payments. (3 months).

Renegotiations:

- It specifies that loans with stage 2 or stage 3 credit risk that are restructured or renewed may not be classified in a stage with lower credit risk as a result of said restructuring or renewal, as long as there is no evidence of sustained payment; unless the requirements of Bulletin B-6 are met to remain in the same risk stage and also with elements that justify the debtor's ability to pay.
- It states that after a second restructuring or renewal it must be classified in stage 3; unless it meets the requirements that must be met at the time of carrying out restructuring or renewal transactions to remain in the same risk stage and also with elements that justify the debtor's ability to pay.
- It states that loans that, due to a restructuring or renewal, are transferred to a category with higher credit risk must remain in said stage for a minimum of three months to prove sustained payment and, consequently, be transferred to the immediately following stage with lower credit risk.

Sale of loan portfolio:

- For loan portfolio sale transactions in which the conditions to write-off a financial asset under Mexican FRS C-14 "Derecognition and transfer of financial assets" are not met, the entity must keep in the asset the amount of the loan sold and recognize in liabilities the amount of funds from the recipient.
- In the events in which a loan portfolio sale is carried out, where the conditions for derecognizing a financial asset under the Mexican FRS C-14 are met, the allowance associated with it must be cancelled.

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Regarding the determination of the impact on the Financial Statements on the transition date, Management has completed the implementation of this criterion and the results obtained are described below:

- It turned out that the Amortized Cost Business Model corresponds to the administration and management of almost the entire loan portfolio. Also, it complies with the evaluation if the contractual flows correspond only to payments of principal and interest in order to maintain it until maturity.
- In the statement of financial position, the loan portfolio with credit risk in stages 1, 2 and 3 has been presented. The design and implementation of the criteria for transferring a portfolio with a credit risk in stages has been based in the guidelines of B-6 and in the criteria contained in the Regulations referring to the application of methodologies for portfolios with internal model and the standard methodology. Given these amendments, for the credit card product, its transfer between stages of degree of risk has been homologated, like the rest of the portfolios.
- On the other hand, it is necessary to comment that Management opted for the facility issued by the regulator, as indicated in the second paragraph of this Note, so that the Institution during 2022 can continue to use the contractual interest rate for the accrual of the interest of the loan portfolio, as well as the application of the straight-line method for the recognition of origination fees and the accrual of transaction costs, as provided in accounting criteria B-6 in force until December 31, 2021, disclosing such circumstance in the quarterly and annual financial statements for said fiscal year. This situation that has already been notified to the authority.

D. B-7 “Foreclosed assets”

The main modifications of this criterion are as follows:

- It states that the recognition value of foreclosed assets will be the lower of the gross carrying value of the portfolio and the net realizable value of the assets received, when the entity’s intention is to sell said assets to recover the amount receivable. On the other hand, two new definitions are added, the net realizable value and disposal costs.
- It states that on the date of registration of foreclosed asset, the value of the asset and the allowance created must be removed from the statement of financial position in the total amount of the net asset and deducting the partial payments in kind according to criterion B-6 “Loan portfolio” and the differential must be recognized in the results of the year as other income (expenses) of the transaction.

Management recognized the initial effect of the entry into force of this standard, which it considers immaterial for the purposes of the financial statements as a whole.

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iii) The main amendments to the Standards that entities must apply are detailed below:

- A. Restricted assets. The margin accounts that entities give to the clearinghouse under transactions with derivative financial instruments carried out in recognized markets or exchanges must adhere to the provisions of Mexican FRS C-10 “Derivative financial instruments and hedging relationships”.
- B. Clearing accounts. Assets and liabilities transactions carried out by entities, for example, in matters of investments in financial instruments, repurchase/resale agreements, securities lending, virtual assets and derivative financial instruments, once they reach their maturity and as long as the settlement is not received or delivered, as agreed in the respective contract, the amount of past due transactions receivable or payable must be recorded in clearing accounts (debtors or creditors in the settlement of transactions).

Also, in transactions where immediate settlement or same-day value date is not agreed, including foreign currency trading, on the contract date, the amount receivable or payable must be recorded in clearing accounts, until settlement takes place. The allowance for expected loan losses relating to the aforementioned amounts receivable must be determined in accordance with Mexican FRS C-16 “Impairment of financial instruments receivable”.

For purposes of presenting the financial statements, clearing accounts will be presented under other accounts receivable (net) or other accounts payable, as appropriate. The balance of the debtor and creditor clearing accounts may be offset in accordance with the compensation rules provided for in Mexican FRS B-12 “Offsetting financial assets and financial liabilities”.

Regarding the transactions referred to in paragraph 11, the balance receivable or payable must be disclosed, for each type of transaction from which they originate (currency, investments in financial instruments, repurchase/resale agreements, virtual assets, etc.), specifying that these are agreed transactions where settlement is pending.

- C. Disclosures related to fair value determination. The entities with respect to the Valuation Adjusted Price that is provided by the price provider in determining the fair value under Section Two, Chapter I, of Title Three of the Banking Regulations, in addition to the accounting criteria or the relevant Mexican FRSs, they are required to disclose, at least, the following:
 - (a) The level of the valuation adjusted price hierarchy (or fair value hierarchy) within which fair value measurements are classified, in accordance with the following:
 - i. Level 1, the highest level, relating to prices obtained exclusively with Level 1 input data.
 - ii. Level 2, prices obtained with Level 1 input data.
 - iii. Level 3, the lowest level, for prices obtained with Level 3 input data.

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- (b) If there is any change in the valuation model, that change and the reasons for making it must be disclosed.
- (c) When there are changes from one period to another in the classification of the valuation adjusted price hierarchy with respect to the same security or financial instrument:
 - i. The amounts of the transfers between Level 1 and Level 2 of the valuation adjusted price hierarchy.
 - ii. The amounts of transfers to or from Level 3 of the valuation adjusted price hierarchy.
- (d) For valuation adjusted price classified in Level 3:
 - i. A reconciliation of opening balances to closing balances, separately disclosing changes during the period attributable to total gains or losses for the period recognized in net income and those recognized in Other Comprehensive Income (OCI).
- (e) When there is a significant decrease in the volume or level of activity in relation to normal market activity for a certain security or financial instrument, or in the event of disorderly conditions, the adjustments that have been applied to the valuation adjusted price must be explained.
- (f) The name of the price provider that which, if any, has provided the valuation adjusted price or the input data for its determination through internal valuation models.

Management recognized the initial effect of the entry into force of this standard, which it considers immaterial for the purposes of the financial statements as a whole.

II Improvements to 2022 Mexican FRS

In September 2021, the CINIF issued the document called “Improvements to 2022 Mexican FRS”, which contains specific amendments to some existing Mexican FRSs. The main improvements that generate accounting changes are as follows.

Mexican FRS B-7 “Business acquisitions” - It includes within its scope the accounting recognition of acquisitions of businesses under common control. It provides for the book value method to recognize business acquisitions between entities under common control. It requires the application of the purchase method in combinations of entities under common control when the acquiring entity has non-controlling shareholders whose shares are affected by the acquisition or when the acquiring entity is listed on a stock exchange. It makes annotations to the accounting treatment and recognition of costs and expenses related to the business combination. This improvement comes into force for the exercises that start January 1, 2022, allowing early application for the year 2021. The accounting changes that arise must be recognized prospectively as provided by Mexican FRS B-1 “Accounting changes and corrections of errors”.

(Continued)

BBVA México, S. A., Institución de Banca Múltiple, Grupo Financiero BBVA México
and subsidiaries

Mexican FRS B-15 “Foreign currency conversion” - This improvement consists of incorporating within the FRS the practical solution for the preparation of complete financial statements for legal and tax purposes when the recording and reporting currency is the same, even when both are different from the functional currency, without carrying out the conversion to the functional currency, indicating the entities that can opt for this solution. This improvement repeals the Interpretation to FRS 15 “Financial statements the reporting currency of which is the same as the recording currency, but different from the functional currency” and comes into effect for the years beginning on or after January 1, 2022, allowing early application for the year 2021. The accounting changes that arise must be recognized prospectively as provided in FRS B-1 “Accounting changes and error corrections”.

Mexican FRS “Benefits to employee” - It considers the effects on the determination of the deferred Employee Profit Sharing (Profit Sharing) derived from the changes in the determination of the Profit Sharing incurred by the decree published on April 23, 2021 by the Federal Government. This improvement comes into force for the years that start on January 1, 2022, allowing early application for the year 2021. The accounting changes that arise must be recognized prospectively as provided in FRS B-1 “Accounting changes and error corrections”.

Mexican FRS B-1 “Accounting changes and error corrections” - It eliminates the requirement to disclose *pro forma* information when there is a change in the structure of the economic entity. This improvement comes into force for the years that start on January 1, 2022, allowing early application for the year 2021. The accounting changes that arise must be recognized prospectively as provided in FRS B-1 “Accounting changes and error corrections”.

Mexican FRS B-10 “Effects of inflation” - It modifies the disclosure requirement when the entity operates in a non-inflationary economic environment to limit them to being made when the entity considers it relevant. This improvement comes into force for the years that start on January 1, 2022, allowing early application for the year 2021. The accounting changes that arise must be recognized prospectively as provided in FRS B-1 “Accounting changes and error corrections”.

Mexican FRS B-17 “Fair value measurement” – It eliminates the requirement of disclosures for changes in an accounting estimate derived from a change in a valuation technique or in its application. This improvement comes into force for the years that start on January 1, 2022, allowing early application for the year 2021. The accounting changes that arise must be recognized prospectively as provided in FRS B-1 “Accounting changes and error corrections”.

Mexican FRS C-6 “Property, plant and equipment” – It eliminates the requirement to disclose the planned time for construction in progress, when there are approved plans for it. This improvement comes into force for the years that start on January 1, 2022, allowing early application for the year 2021. The accounting changes that arise must be recognized prospectively as provided in FRS B-1 “Accounting changes and error corrections”.

Management estimates that the effects of adopting the improvements to the FRS shall not be material for the consolidated financial statements as a whole.

ANNEX A – SUMMARY OF SIGNIFICANT DIFFERENCES BETWEEN MEXICAN BANKING GAAP AND U.S. GAAP

Mexican banks prepare their financial statements in accordance with Mexican Banking Accounting Criteria (“**Mexican Banking GAAP**”) as prescribed by the CNBV. Mexican Banking GAAP encompasses general accounting rules for Banks as issued by the CNBV and, to the extent that such accounting rules do not address a given accounting topic, Mexican Financial Reporting Standards (“**MFRS**”) prescribed by the Mexican Board for the Research and Development of Financial Information Standards (*Consejo Mexicano para la Investigación y Desarrollo de Normas de Información Financiera*). Mexican Banking GAAP differs in certain significant respects from U.S. GAAP. Such differences might be material to the financial information contained in this Offering Memorandum. A summary of certain differences is presented below. We have made no attempt to identify or quantify the impact of those differences. In making an investment decision, investors must rely upon their own examination of the Company, including the terms of this offering and the financial information contained in this Offering Memorandum. Potential investors should consult with their own professional advisors for an understanding of the differences between Mexican Banking GAAP and U.S. GAAP, and how those differences might affect the financial information herein.

This summary should not be taken as exhaustive of all differences between Mexican Banking GAAP and U.S. GAAP. No attempt has been made to identify all disclosure, presentation or classification differences that would affect the manner in which transactions or events are presented in financial statements, including the notes thereto. We have not included in this Offering Memorandum a reconciliation of our Mexican Banking GAAP financial statements to U.S. GAAP.

Loan Loss Reserve

Until December 31, 2021, the accounting rules for loan loss reserves under Mexican Banking GAAP as set forth in the General Rules Applicable to Mexican Banks, required the creation of allowances for loan losses for each type of loan. In addition, the CNBV allowed the application of internal models certified by an independent reviewer, according to MFRS C-16. Also, the CNBV permitted the recognition of additional discretionary reserves based on preventative criteria.

According to the General Rules Applicable to Mexican Banks, the entities that applied internal models of provisions might maintain as part of their credit risk policies the qualitative criteria to identify and categorize the credit portfolio in stage 1, stage 2, and stage 3, based on the assessed level of credit risk.

The following past due loans were classified within stage 3: (1) loans whose principal and interest payments were 90 days past due, (2) overdrawn customer checking accounts of clients that didn’t have authorized credit line showing overdrafts (3) when there was evidence that the customer had declared bankruptcy, and (4) immediate collection documents referred to in Accounting Criterion B-1, “Cash and cash equivalents,” of the CNBV when not collected within the allotted period of time (two or five days as appropriate).

Similarly, until December 31, 2021, some differences with Mexican Banking GAAP were implemented for public business entities reporting under U.S. GAAP. Estimated loan losses for public entities have to be determined using the current expected credit loss (“**CECL**”) model in which an entity recognizes lifetime expected credit losses related to loans, debt securities, trade receivables and off-balance-sheet credit exposures.

Moreover, until December 31, 2021, under Mexican Banking GAAP, loans could be written-off when collection efforts had been exhausted or when they had been fully provisioned. However, differences were implemented since for U.S. GAAP, loans (or portions of particular loans) should be written-off in the period that they are deemed uncollectible.

Starting on January 1, 2022, the differences previously mentioned were significantly reduced, due to changes in Mexican Banking GAAP and the adoption of new accounting criteria. In particular, these changes allowed loan portfolio treatment under Mexican Banking GAAP to become more comparable to U.S. GAAP.

Past Due Loans

Under Mexican Banking GAAP, the recognition of interest income is suspended when loans are classified as past due based on the criteria established by the CNBV.

Under U.S. GAAP, the accrual of interest income is discontinued for loans placed on nonaccrual status.

Fair Value of Financial Instruments

Mexican Banking GAAP defines fair value as the amount an interested and informed market participant would be willing to exchange for the purchase or sale of an asset or to assume or settle a liability in a free market. This definition can consider either an entry or an exit price.

U.S. GAAP defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This definition only considers an exit price. Consideration must be given to the principal and most advantageous market and the highest and best use of the asset.

Business Combinations

Under Mexican Banking GAAP, the separately identifiable assets acquired and liabilities assumed in connection with a business combination are measured at their acquisition-date fair values, with the exception of acquired loan portfolio, which is measured based on the criteria set forth by the CNBV. Goodwill is recognized for the excess of purchase consideration paid over the fair value of net assets acquired.

Under U.S. GAAP, an acquirer in a business combination recognizes assets acquired, liabilities assumed, and any non-controlling interest in the acquiree at fair value as of the acquisition date.

Definition of a Business

Under Mexican Banking GAAP, no initial “screen” test is applied for determining when a set of assets constitutes a business, or not.

Under U.S. GAAP, an entity is required to determine whether substantially all of the fair value of the gross assets acquired (or disposed of) is concentrated in a single identifiable asset or group of similar identifiable assets. If that threshold is reached, the set is not a business.

Employee Retirement Obligations

Under Mexican Banking GAAP, companies must determine whether termination benefits, such as severance indemnity benefits, are provided in accordance with employee contracts or implied based on past practice regarding the payment of such benefits, in which case they are accounted for as post-employment benefits and a provision is recognized as employee services are provided. Otherwise, termination benefits are recognized when an event occurs (such as a restructuring) that gives rise to an obligation to pay such benefits.

Companies reporting under U.S. GAAP are generally required to recognize a pension liability for severance indemnity liabilities.

Guarantees

For Mexican Banking GAAP purposes, guarantees are recorded at cost at inception and disclosed in memorandum accounts unless payments in connection with the guarantee are probable, where the amounts expected to be paid are recorded.

For U.S. GAAP purposes, an entity recognizes, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing such guarantee.

Accounting Changes

In certain cases, the accumulated effects of accounting changes issued by the CNBV pursuant to new or revised accounting criteria are charged or credited to retained earnings and not to the statement of income for the period.

Under U.S. GAAP, accounting changes such as changes in accounting principles or corrections of errors are generally recognized with retrospective adjustments to previously reported financial statements.

Deferred Income Tax

Mexican Banking GAAP is similar to U.S. GAAP with respect to accounting for deferred income taxes in that an asset and liability approach is required. Under Mexican Banking GAAP, deferred tax assets must be reduced by a valuation allowance if it is “highly probable” that all or a portion of the deferred tax assets will not be realized. The determination of the need for a valuation allowance must consider future taxable income and the reversal of

temporary taxable differences. Net deferred income tax assets or liabilities are presented within long-term assets or liabilities.

Under U.S. GAAP, a valuation allowance is recognized if, based on the weight of all positive and negative available evidence, it is “more likely than not” that all or a portion of the deferred tax asset will not be realized. In order to make this determination, entities must consider future reversals of taxable temporary differences, future taxable income, taxable income in prior carryback years and tax planning strategies. Additionally, if the company has experienced recent cumulative losses, little weight, if any, may be placed on future taxable income as evidence to support the recoverability of a deferred income tax asset. U.S. GAAP requires that deferred tax assets and liabilities be classified as current or long-term depending on the classification of the asset or liability to which the deferred relates.

Consolidation

Under Mexican Banking GAAP, an investor is required to consolidate subsidiaries over which it is established control. An investor controls an investee when the investor has all the following:

- (a) power over the investee,
- (b) exposure, or rights, to variable returns from its involvement with the investee, and
- (c) the ability to use its power over the investee to affect the amount of the investor’s returns.

Under U.S. GAAP, entities consolidate the financial statements all investees over which a controlling financial interest is held (either through a majority voting interest or through the existence of other control factors).

Entities over which a controlling financial interest is achieved through means other than voting rights are known as variable-interest entities (“**VIEs**”). Generally, VIEs are to be consolidated by the primary beneficiary which is the entity that has the power to direct the activities of a VIE that most significantly impact the VIE’s economic performance and the obligation to absorb losses of the VIE that could potentially be significant to the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE.

Effects of Inflation

Through December 31, 2007, Mexican Banking GAAP required that the effects of inflation be recorded in financial information and that financial statements be restated to constant pesos as of the latest balance sheet date presented. Beginning January 1, 2008, Mexican Banking GAAP modified the accounting for the recognition of the effects of inflation and defines two economic environments: (i) an “inflationary environment,” in which the cumulative inflation of the three preceding years is 26% or more, in which case the effects of inflation should be recognized using the comprehensive method; and (ii) a “non-inflationary environment,” in which the cumulative inflation of the three preceding years is less than 26%, in which case, no inflationary effects should be recognized in the financial statements.

Under U.S. GAAP, historical costs must be maintained in the basic financial statements. Business enterprises are encouraged to disclose certain supplemental information concerning changing prices on selected statement of income and balance sheets items unless the company operates in a hyperinflationary economy. A hyperinflationary economy is generally defined as one in which the cumulative three year inflation rate exceeds 100%.

ANNEX B – SUMMARY OF SIGNIFICANT DIFFERENCES BETWEEN MEXICAN BANKING GAAP AND IFRS

Mexican banks prepare their financial statements in accordance with Mexican Banking Accounting Criteria (“**Mexican Banking GAAP**”) as prescribed by the CNBV. Mexican Banking GAAP encompasses general accounting rules for Banks as issued by the CNBV and, to the extent that such accounting rules do not address a given accounting topic, Mexican Financial Reporting Standards (“**MFRS**”) prescribed by the Mexican Board for the Research and Development of Financial Information Standards (*Consejo Mexicano para la Investigación y Desarrollo de Normas de Información Financiera*). Mexican Banking GAAP differs in certain significant respects from International Financial Reporting Standards (“**IFRS**”). Such differences might be material to the financial information contained in this Offering Memorandum. A summary of certain differences is presented below. We have made no attempt to identify or quantify the impact of those differences. In making an investment decision, investors must rely upon their own examination of the Company, including the terms of this offering and the financial information contained in this Offering Memorandum. Potential investors should consult with their own professional advisors for an understanding of the differences between Mexican Banking GAAP and IFRS, and how those differences might affect the financial information herein.

This summary should not be taken as exhaustive of all differences between Mexican Banking GAAP and IFRS. No attempt has been made to identify all disclosure, presentation or classification differences that would affect the manner in which transactions or events are presented in financial statements, including the notes thereto. We have not included in this Offering Memorandum a reconciliation of our Mexican Banking GAAP financial statements to IFRS.

Classification and Measurement of Financial Assets

Under Mexican Banking GAAP, financial assets are reclassified in the period in which the change in the business model occurs. Under IFRS, financial assets are reclassified at the beginning of the period following change in business model.

Under Mexican Banking GAAP changes in the fair value of instruments that are not traded in the short term are irrevocably recognized within “Other Comprehensive Income.” If these instruments are sold, the accumulated other comprehensive income is recycled into the net income or loss of the year. Under IFRS, this is not allowed.

Loan Loss Reserve

Until December 2021, the accounting rules for loan loss reserves under Mexican Banking GAAP as set forth in the General Rules Applicable to Mexican Banks, required the creation of allowances for loan losses for each type of loan. In addition, the CNBV allowed the application of internal models certified by an independent reviewer, according to FRS NIF C-16. Also, the CNBV permitted the recognition of additional discretionary reserves based on preventative criteria.

According to the General Rules Applicable to Mexican Banks, the entities that applied internal models of provisions might maintain as part of their credit risk policies the qualitative criteria to identify and categorize the credit portfolio in stage 1, stage 2, and stage 3, based on the assessed level of credit risk.

The following past due loans were classified within stage 3: (1) loans whose principal and interest payments were 90 days past due, (2) overdrawn customer checking accounts of clients that didn’t have authorized credit line showing overdrafts, (3) when there was evidence that the customer had declared bankruptcy, and (4) immediate collection documents referred to in Accounting Criterion B-1, “Cash and cash equivalents,” of the CNBV when not collected within the allotted period of time (two or five days as appropriate).

Similarly, until December 31, 2022, differences with Mexican Banking GAAP were implemented since under IFRS, impairment of loans is determined using an expected loss model. At each reporting date, an entity shall assess whether the credit risk on a financial asset has increased significantly since initial recognition. Estimated credit losses on a financial asset for which the risk of credit loss has not increased significantly since initial recognition are equal to credit losses expected to occur over the following 12-month period. An entity shall measure the loss allowance for a financial asset at an amount equal to the lifetime expected credit losses if the credit risk on that financial asset has increased significantly since initial recognition. Under Mexican Banking GAAP, loans may be written-off when collection efforts have been exhausted or when they have been fully provisioned. For IFRS, loans should be written-

off in the period in which the entity has no reasonable expectations of recovering the asset in its entirety or a portion thereof.

Starting on January 1, 2022, the differences previously mentioned were significantly reduced, due to changes in Mexican Banking GAAP and the adoption of new accounting criteria. In particular, these changes have allowed loan portfolio treatment under Mexican Banking GAAP to become more comparable to IFRS.

Interest Accrual on Past Due Loans

Under Mexican Banking GAAP, the recognition of interest income is suspended when loans are classified as past due based on the criteria established by the CNBV.

Under IFRS, the accrual of interest income on past due loans is adjusted based on the amounts expected to be recovered.

Fair Value of Financial Instruments

Mexican Banking GAAP defines fair value as the amount an interested and informed market participant would be willing to exchange for the purchase or sale of an asset or to assume or settle a liability in a free market. This definition can consider either an entry or an exit price.

IFRS defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This definition only considers an exit price. Consideration must be given to the principal and most advantageous market and the highest and best use of the asset.

Business Combinations

Under Mexican Banking GAAP, the separately identifiable assets acquired and liabilities assumed in connection with a business combination are measured at their acquisition-date fair values, with the exception of acquired loan portfolio, which is measured based on criteria set forth by the CNBV. Goodwill is recognized for the excess of purchase consideration paid over the fair value of net assets acquired.

Under IFRS, an acquirer in a business combination recognizes assets acquired and liabilities assumed at fair value as of the acquisition date. Noncontrolling interest is measured at fair value or the proportionate share held in the acquiree's identified net assets.

Employee Benefits

Under Mexican Banking GAAP, actuarial gains and losses recycled to other comprehensive income are amortized to income over the estimated service life of the employees. Under IFRS, actuarial gains or losses recorded directly stockholders' equity and are not subsequently recycled to earnings.

The benchmark rate used to discount employee benefits liabilities to present value for purposes of Mexican Banking GAAP is the market rate for high quality corporate bonds denominated in pesos. Under IFRS, the benchmark rate is the market rate for debt issued by the Mexican government.

Deferred Statutory Profit Sharing (“PTU”) Benefits

Under Mexican Banking GAAP, entities are required to recognize deferred PTU assets and liabilities arising from temporary differences between the income tax and financial reporting bases of assets and liabilities.

For purposes of IFRS, PTU benefits are accounted for as a short-term employee benefit under IAS 19, *Employee Benefits*. This accounting model does not contemplate the recognition of deferred PTU assets or liabilities arising from temporary differences between the income tax and financial reporting bases of assets and liabilities.

Guarantees

For Mexican Banking GAAP purposes, guarantees are recorded at cost at inception and disclosed in memorandum accounts unless payments in connection with the guarantee are probable, where the amounts expected to be paid are recorded.

For IFRS purposes, an entity recognizes, at the inception of a guarantee, a provision for the fair value of the obligation undertaken in issuing such guarantee.

Accounting Changes

In certain cases, the accumulated effects of accounting changes issued by the CNBV pursuant to new or revised accounting criteria are charged or credited to retained earnings and not to the statement of income for the period.

Under IFRS, accounting changes such as changes in accounting principles or corrections of errors are generally recognized with retrospective adjustments to previously reported financial statements.

Effects of Inflation

Through December 31, 2007, Mexican Banking GAAP required that the effects of inflation be recorded in financial information and that financial statements be restated to constant pesos as of the latest balance sheet date presented. Beginning January 1, 2008, Mexican Banking GAAP modified the accounting for the recognition of the effects of inflation and defines two economic environments: (i) an “inflationary environment,” in which the cumulative inflation of the three preceding years is 26% or more, in which case the effects of inflation should be recognized using the comprehensive method; and (ii) a “non-inflationary environment,” in which the cumulative inflation of the three preceding years is less than 26%, in which case, no inflationary effects should be recognized in the financial statements.

Under IFRS, historical costs must be maintained in the basic financial statements unless the entity is deemed to operate in a hyperinflationary economy. A hyperinflationary economy is generally defined as one in which the cumulative three year inflation rate exceeds 100%.

ANNEX C – FORM OF PRICING SUPPLEMENT

Set out below is the form of Pricing Supplement which will be completed for each series of Notes issued under the Program.

[PROHIBITION OF SALES TO EEA RETAIL INVESTORS – The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (the “**EEA**”). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, “**MiFID II**”); (ii) a customer within the meaning of Directive (EU) 2016/97 (the “**Insurance Distribution Directive**”), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in Regulation (EU) 2017/1129 (the “**Prospectus Regulation**”). Consequently, no key information document required by Regulation (EU) No 1286/2014 (as amended, the “**PRIIPs Regulation**”) for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.]¹

[MIFID II PRODUCT GOVERNANCE / PROFESSIONAL INVESTORS AND ELIGIBLE COUNTERPARTIES ONLY TARGET MARKET – Solely for the purposes of [the/each] manufacturer’s product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is eligible counterparties and professional clients only, each as defined in [Directive 2014/65/EU (as amended, “**MiFID II**”)/MiFID II]; and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Notes (a “**distributor**”) should take into consideration the manufacturer[‘s/s’] target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturer[‘s/s’] target market assessment) and determining appropriate distribution channels.]

[PROHIBITION OF SALES TO UK RETAIL INVESTORS – The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the United Kingdom (the “**UK**”). For these purposes, a retail investor means a person who is one (or more) of the following: (i) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of UK domestic law by virtue of the European Union (Withdrawal) Act 2018 (the “**EUWA**”); or (ii) a customer within the meaning of the provisions of the Financial Services and Markets Act 2000, as amended (“**FSMA**”) and any rules or regulations made under the FSMA to implement Directive (EU) 2016/97, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of UK domestic law by virtue of the EUWA; or (iii) not a qualified investor as defined in Article 2 of the Prospectus Regulation as it forms part of UK domestic law by virtue of the EUWA.

Consequently, no key information document required by Regulation (EU) No 1286/2014 as it forms part of UK domestic law by virtue of the EUWA (the “**UK PRIIPs Regulation**”) for offering or selling the Notes or otherwise making them available to retail investors in the UK has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the UK may be unlawful under the UK PRIIPs Regulation.]²

[UK MIFIR PRODUCT GOVERNANCE / PROFESSIONAL INVESTORS AND ECPS ONLY TARGET MARKET – Solely for the purposes of [the/each] manufacturer’s product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is only eligible counterparties, as defined in the FCA Handbook Conduct of Business Sourcebook (“**COBS**”), and professional clients, as defined in Regulation (EU) No 600/2014 as it forms part of domestic law in the UK by virtue of the EUWA (“**UK MiFIR**”); and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Notes (a “**distributor**”) should take into

¹ Legend to be included on front of the Pricing Supplement if the Notes potentially constitute “packaged” products and no key information document will be prepared or the issuer wishes to prohibit offers to EEA retail investors for any other reason, in which case the selling restriction should be specified to be “Applicable.”

² Legend to be included on front of the Pricing Supplement if the Notes potentially constitute “packaged” products and no key information document will be prepared or the issuer wishes to prohibit offers to UK retail investors for any other reason, in which case the selling restriction should be specified to be “Applicable.”

consideration the manufacturer[‘s/s’] target market assessment; however, a distributor subject to the FCA Handbook Product Intervention and Product Governance Sourcebook (the “**UK MiFIR Product Governance Rules**”) is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturer[‘s/s’] target market assessment) and determining appropriate distribution channels.]

NOTICE TO PERSONS IN THE UNITED KINGDOM – In the UK, this communication is being distributed only to, and is directed only at, qualified investors (as defined in the Prospectus Regulation as it forms part of UK domestic law by virtue of the EUWA) who are (i) persons having professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended, the “**Order**”), or (ii) high net worth entities and other persons to whom it may be lawfully be communicated falling within Article 49(2)(a) to (d) of the Order (all such persons together being referred to as “**relevant persons**”). The Notes are only available to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire the Notes in the UK will be engaged in only with, relevant persons. Any person in the UK who is not a relevant person should not act or rely on this Offering Memorandum or any of its contents.

BBVA México, S.A., Institución de Banca Múltiple, Grupo Financiero BBVA México [, acting through its Texas Agency]

**Issue of [Aggregate Nominal Amount of Series] [Title of Notes]
under the U.S.\$10,000,000,000
Medium-Term Notes Program**

PART A – CONTRACTUAL TERMS

[Terms used herein shall be deemed to be defined as such for the purposes of the terms and conditions set forth in the section entitled “Description of the Notes” in the offering memorandum dated April 29, 2022 [and the supplement[s] to it dated [●] [and [●]] (together, the “**Offering Memorandum**”). This document constitutes the Pricing Supplement of the Notes described herein and must be read in conjunction with the Offering Memorandum. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of this Pricing Supplement and the Offering Memorandum. The Offering Memorandum has been published on the website of the Irish Stock Exchange plc trading as Euronext Dublin (“**Euronext Dublin**”).]

[Include whichever of the following apply or specify as “Not Applicable” (N/A). Note that the numbering should remain as set out below, even if “N/A” is indicated for individual paragraphs or subparagraphs. Italics denote directions for completing the Pricing Supplement.]

- | | | |
|----|--|---|
| 1. | Issuer: | BBVA México, S.A., Institución de Banca Múltiple, Grupo Financiero BBVA México [, acting through its Texas Agency] |
| 2. | (a) Title: | [] |
| | (b) Series Number: | [] [N/A] |
| | (c) Tranche Number: | [] [N/A] |
| | | [The Notes will be consolidated and form a single Series with the [●] Notes issued [●] on [the Issue Date/the date that is 40 days after the Issue Date] ³ |
| 3. | Specified Currency or Currencies: | [] |
| | (a) Specified Principal Payment Currency (if different from Specified Currency): | [] |
| | (b) Specified Interest Payment Currency (if different from Specified Currency): | [] |

³ To be included for Additional Notes only.

4. Aggregate Nominal Amount: []
- (a) Series: []
- (b) Tranche: []
5. Issue Price: [] percent of the Aggregate Nominal Amount
[plus accrued interest from [Insert Date]] [(if applicable)]
6. (a) Minimum Denominations: []
- (b) Calculation Amount: []
7. (a) Issue Date: []
- (b) Interest Commencement Date: [] [Issue Date] [N/A]
- (N.B. An Interest Commencement Date will not be relevant for certain Notes)*
8. Maturity Date:⁴ []
9. Interest Basis: [[] percent Fixed Rate]
- [Fixed Reset Rate][Fixed/Floating Rate][Floating/Fixed Rate]
- [CD Rate/Commercial Paper Rate/CMT Rate/Federal Funds Rate/EURIBOR/Treasury Rate/Prime Rate/[Other]] +/- [] percent Floating Rate]
- [N/A]
- (see paragraph[s] [13]/[14]/[15] below)
10. Change of Interest Basis: *[Specify the date when any fixed to floating rate change (or vice versa) occurs or cross refer to paragraph[s] [13]/[15] below]* [N/A]
11. Investor Put/Issuer Call Option: [Investor Put/Issuer Call] [N/A]
- (see paragraph[s] [17]/[18]/[19]/[20]/[23] below)
12. Status of the Notes: [Senior/Subordinated]
- (a) Status of Senior Notes: [Senior] [N/A]
- (b) Status of Subordinated Notes: [Tier 2 Subordinated] [N/A]
- (c) [Date of [Board] approval for issuance of Notes obtained:] [] [N/A]

⁴ Include amortization schedule for Amortizing Notes.

(N.B. Only relevant where Board (or similar) authorization is required for the particular tranche of Notes)

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

13. Fixed Rate Note Provisions: [Applicable for the period to (but excluding) [] [the Maturity Date]][N/A]
- (If N/A, delete the remaining subparagraphs of this paragraph)*
- (a) Rate(s) of Interest: [] percent per annum payable in arrears on each [Interest Payment Date]
- (b) Interest Payment Date(s): [] in each year up to and including the Maturity Date
- (Amend appropriately in the case of irregular coupons)*
- (c) Regular Record Date(s): []
- (d) Fixed Day Count Fraction: [30/360][Actual/360][Other]
- (e) Interest Determination Date(s): [[] in each year][N/A]
- (Only relevant where Fixed Day Count Fraction is Actual/Actual (ISDA). In such a case, insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon)*
14. Fixed Reset Note Provisions: [Applicable][N/A]
- (If N/A, delete the remaining subparagraphs of this paragraph)*
- (a) Initial Fixed Reset Interest Rate: [] percent per annum payable in arrears on each [Interest Payment Date] up to, but excluding, the Fixed Reset Date
- (b) Interest Payment Dates: [] in each year up to and including the Maturity Date
- (Amend appropriately in the case of irregular coupons)*
- (c) Initial Fixed Reset Interest Period: []
- (d) Regular Record Date(s): []
- (e) Fixed Coupon Amount to (but excluding) the Reset Date: [[] per Calculation Amount]
- (f) Fixed Day Count Fraction: [30/360][Actual/360][Other]
- (g) Fixed Reset Date: [] [N/A]
- (h) Subsequent Reset Date(s): [] [N/A]

- (i) Reset Determination Date[s]: []
- (j) Reset Reference Rate: [Treasury Yield (as defined in the Offering Memorandum)][Other][N/A]
- (k) Reset Margin: [+/-][] basis points
- (l) Calculation agent/Party responsible for calculating the Rate of Interest: []
15. Floating Rate Note Provisions: [Applicable for the period to (but excluding) the Maturity Date][N/A]
- (If N/A, delete the remaining subparagraphs of this paragraph)*
- (a) Interest Payment Date(s)/Specified Periods: [], subject to adjustment in accordance with the Business Day Convention set out in (c) below/, not subject to any adjustment, as the Business Day Convention in (c) below is specified to be N/A]
- (b) Regular Record Date(s): []
- (c) Business Day Convention: [Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/ Preceding Business Day Convention] [N/A]
- (d) Manner in which the Rate of Interest and Interest Amount is to be determined: [Screen Rate Determination][Other]
- (e) Calculation agent/Party responsible for calculating the Rate of Interest and Interest Amount: []
- (f) Screen Rate Determination: [Applicable][N/A]
- (If N/A, delete the remaining sub-paragraphs of this paragraph)*
- Reference Rate: Reference Rate: [] month CD Rate/Commercial Paper Rate/CMT Rate/Federal Funds Rate/EURIBOR/Treasury Rate/Prime Rate/[Other]]
 - Specified Time: []
 - Interest Determination Date(s): []
 - Relevant Screen Page: []
 - Reference Rate Replacement: [Applicable][N/A]
- (g) Linear Interpolation: [N/A][Applicable. The Rate of Interest for the [long/short] [first/last] Interest Period shall be

- calculated using Linear Interpolation of [] and []
- (h) Margin(s): [+/-] [] percent per annum
 - (i) Minimum Rate of Interest: [] percent per annum
 - (j) Maximum Rate of Interest: [] percent per annum
 - (k) Floating Day Count Fraction: [[Actual/Actual][Actual/Actual (ISDA)][Actual/365 (Fixed)][Actual/360][30/360][360/360][Bond Basis]

PROVISIONS RELATING TO REDEMPTION

- 17. Tax Redemption: [Applicable][N/A]
- 18. Make-Whole Redemption: [Applicable][N/A]

(If N/A, delete the remaining subparagraphs of this paragraph)

 - (a) Make-Whole Redemption Date(s): []

(N.B., the redemption date for any Floating Rate Note will be an Interest Payment Date.)
 - (b) Make-Whole Redemption Price: []
 - (i) Benchmark Security(ies): *[Insert applicable Benchmark Security]*
 - (ii) Reference Time: []
 - (iii) Make Whole Margin: [] basis points
 - (iv) Par Redemption Date: []
 - (v) Linear Interpolations: [Applicable][N/A]
 - (vi) Calculation Agent (if other than the Bank): [] [N/A]
- 19. Special Event Redemption: [Applicable][N/A]
 - Notice Periods:
 - Minimum period: [] days
 - Maximum period: [] days
- 20. Subordinated Notes Optional Redemption: [Applicable][N/A]
 - (a) Subordinated Notes Optional Redemption Date: []
 - (b) Notice Periods:
 - Minimum period: [] days
 - Maximum period: [] days
- 21. [Early Redemption Amount payable on redemption for taxation reasons, on an event of [] per Calculation Amount]

default or upon the occurrence of a Special Event Redemption or Subordinated Notes Optional Redemption:]

22. Final Redemption Amount: [] per Calculation Amount
23. Investor Put: [Applicable][N/A]
- (If N/A, delete the remaining subparagraphs of this paragraph)*
- (a) Optional Repayment Date(s): []
- (b) Notice Periods: Minimum period: [] days
Maximum period: [] days

GENERAL PROVISIONS APPLICABLE TO THE NOTES

24. Form of Notes: [Registered Notes:
[Regulation S Global Note ([] nominal amount) registered in the name of a nominee for [DTC/a common depository for Euroclear and Clearstream/a common safekeeper for Euroclear and Clearstream]]/[Rule 144A Global Note ([] nominal amount registered in the name of a nominee for [DTC/a common depository for Euroclear and Clearstream /a common safekeeper for Euroclear and Clearstream])] (specify nominal amounts)]
- [Global Note exchangeable for definitive Notes on [] days' notice/at any time/in the limited circumstances specified in the Global Note.]
25. Additional Notes: [Applicable][N/A]
26. Additional Events of Default: [Applicable][N/A]
27. Other Terms: [N/A][Insert different/additional/other terms]⁵
- (When adding any other terms consideration should be given as to whether such terms or information constitute "significant new factors" and consequently trigger the need for a supplement to the Offering Memorandum. If the Notes are SDG Notes, specify the Bank's website where the SDG Framework will be published.)*

⁵ Include tax consequences not described in the Offering Memorandum and any details related to Indexed Notes, Extendible Notes or Dual Currency Notes.

PURPOSE OF PRICING SUPPLEMENT

This Pricing Supplement comprises the pricing supplement required for issue [and] [admission to trading on Euronext Dublin (the “**Global Exchange Market**”) and for listing on the Official List of Euronext Dublin] of the Notes described herein pursuant to the listing of the U.S.\$10,000,000,000 Medium-Term Note Program of BBVA México, S.A., Institución de Banca Múltiple, Grupo Financiero BBVA México.

[[*Relevant third party information*] has been extracted from [*specify source*]. The Issuer confirms that such information has been accurately reproduced and that, so far as it is aware and is able to ascertain from information published by [*specify source*], no facts have been omitted which would render the reproduced information inaccurate or misleading.]

Signed on behalf of BBVA México, S.A., Institución de Banca Múltiple, Grupo Financiero BBVA México [, acting through its Texas Agency]:

By: _____
Duly authorized

PART B – OTHER INFORMATION

1. LISTING AND ADMISSION TO TRADING

- (i) Listing: Application [has been/is expected to be] made for the Notes to be admitted to the Official List of Euronext Dublin.
- (ii) Admission to trading: Application [has been/is expected to be] made for the Notes to be admitted to trading on the Global Exchange Market.
- (iii) [Estimate of net proceeds (gross proceeds less commissions):] []
- (iv) Estimate of total expenses related to admission to trading: []

2. RATINGS

- Ratings: [The Notes to be issued [[have been]/[are expected to be]] rated:][The following rating[s] reflect[s] ratings assigned to Notes of this type issued under the Program generally:]
- [insert details] by [insert legal name of the relevant credit rating agency]
- (The above disclosure should reflect the rating allocated to Notes of the type being issued under the Program generally or, where the issue has been specifically rated, that rating.)*
- [[Insert the legal name of the relevant credit rating agency entity] is established in the European Union and is registered under Regulation (EC) No. 1060/2009 (as amended).]

3. INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE ISSUE

[Save for [any fees/the fees] [of insert relevant fee disclosure]] payable to the [Dealers] [as discussed in “Plan of Distribution”], so far as the Issuer is aware, no person involved in the offer of the Notes has an interest material to the offer.] [The [Dealers] and their affiliates have engaged and may in the future engage in investment banking and/or commercial banking transactions with, and may perform other services for, the Issuer and its affiliates in the ordinary course of business - Amend as appropriate if there are other interests.]

4. USE OF PROCEEDS

[]

(See “Use of Proceeds” wording in Offering Memorandum – if reasons for offer are different from general corporate purposes and there is a particular identified use of proceeds, this will need to be stated here.)

5. YIELD (*Fixed Rate Notes Only*)

Indication of yield: [] [N/A]

[The yield is calculated at the Issue Date on the basis of the Issue Price. It is not an indication of future yield.]

6. OPERATIONAL INFORMATION

- (i) ISIN Code: []
- (ii) CUSIP: []
- (iii) Common Code: []
- (iv) Issuer Legal Entity Identifier Code: []
- (v) Clearing System(s): [DTC][Euroclear][Clearstream][Other Clearing System]
- (vi) Names and addresses of additional Agent(s) (if any): [] [N/A]
- (vii) Delivery: Delivery [against/free of] payment

7. DISTRIBUTION

- (i) If syndicated, names [and addresses] of Dealers [and underwriting commitments]: [N/A][give names, addresses and underwriting commitments]
(Include names and addresses of entities agreeing to underwrite the issue on a firm commitment basis and names and addresses of the entities agreeing to place the issue without a firm commitment or on a “best efforts” basis if such entities are not the same as the Arrangers)
- (ii) Arranger(s): [N/A][give names, addresses and underwriting commitments]
- (iii) Stabilizing Manager(s) (if any): [N/A][give name]
- (iv) If non-syndicated, name [and address] of Dealer(s): [N/A][give name(s) and address(es)]
- (v) [Total commission and concession:]: [[]] percent of the Aggregate Nominal Amount
- (vi) U.S. Selling Restrictions: [N/A][give details and address]
- (vii) Prohibition of Sales to EEA Retail Investors: [N/A][Applicable]
- (viii) Prohibition of Sales to UK Retail Investors: [N/A][Applicable]

ISSUER

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