Scotiabank Inverlat, S. A.,
Institución de Banca Múltiple,
Grupo Financiero Scotiabank Inverlat
and subsidiaries

Consolidated financial statements

December 31, 2021 and 2020

(With Independent Auditor's Report thereon)
(Free translation from Spanish language original)

KPMG Cárdenas Dosal, S.C.
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Independent Auditors' Report

(Translation from Spanish language original)

The Board of Directors and Stockholders
Scotiabank Inverlat, S. A., Institución de Banca Múltiple,
Grupo Financiero Scotiabank Inverlat:

(Millions of Mexican pesos)

Opinion

We have audited the consolidated financial statements of Scotiabank Inverlat, S. A., Institución de Banca Múltiple, Grupo Financiero Scotiabank Inverlat and subsidiaries (the Bank), which comprise the consolidated balance sheets as of 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 Scotiabank Inverlat, S. A., Institución de Banca Múltiple, Grupo Financiero Scotiabank Inverlat and subsidiaries, have been prepared, in all material respects, in accordance with the Accounting Criteria for Credit Institutions in Mexico (the Accounting Criteria), issued by the National Banking and Securities Commission (the Banking 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 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.

(Continued)

Aguascalientes, Ags.
Cancún, Q. Roo.
Ciudad de México.
Ciudad Juárez, Chih.
Culiacán, Sin.
Chihuahua, Chih.
Guadalajara, Jal.
Hermosillo, Son.
León, Gto.
Mexicali, B.C.
Monterrey, N.L.
Puebla, Pue.
Querétaro, Qro.
Reynosa, Tamps.
Saltillo, Coah.
San Luis Potosí, S.L.P.
Tijuana, B.C.

Allowance for loan losses $16,702, in the consolidated balance sheet	
See notes 3(l), 11(f) and (g) to the consolidated financial statements.	
Key audit matter	**How the key audit matter was addressed in our audit**
The allowance for loan losses for the commercial loans portfolio involves significant judgement for the evaluation of the borrowers' ability to pay, considering the different factors in accordance with the methodologies for the credit portfolio rating process established by the Banking Commission as well as to assess the reliability in the documentation and its update, which is used as input for the determination of the allowance for loan losses for all the loan portfolios. Likewise, the caption of allowance for loan losses, as of December 31, 2021 includes $1,938 in addition to the estimate based on the methodologies prescribed by the Banking Commission for the Commercial, Mortgage and Consumer portfolios, which, in the Management´s opinion is required to cover additional potential credit risks as a consequence of the impact on the economy caused by the COVID 19 pandemic. The internal model developed by the Bank for the aforementioned purpose includes judgments and significant variables for calculating the additional estimate, such as: sectors of the economy most affected, projections of gross domestic product, interest rates and exchange rates, unemployment levels and default rates, among others. Therefore, we have determined the allowance for loan losses as a key audit matter.	The audit procedures applied to Management's determination of the allowance for loan losses and its effect on the year's results, included the assessment, on a sample basis, of both the inputs used and the calculation method for the different loan portfolios based on the methodology in force established by the Banking Commission for each type of loan portfolio. The main audit procedures applied to the additional allowance for loan losses, with the participation of our specialists, consisted of: i) inspection of the approval of the policy and model used by the Risk Committee (or by the body empowered for authorization) and ii) evaluation of the model used and the relevant inputs used for the calculation.

(Continued)

Over the counter derivative financial instruments \$18,026 (assets) and \$18,194 (liabilities) and hedging transactions \$4,734 (assets) and \$3, 936 (liabilities)	
See notes 3(i) and 10 to the consolidated financial statements.	
Key audit matter	**How the key audit matter was addressed in our audit**
Fair value determination at the balance sheet date of some over the counter derivative financial instruments and hedging transactions, is carried out through the use of valuation techniques that involve a significant degree of judgement by Management, mainly when the use of inputs from various sources or data not observable in financial markets and complex valuation models is required. In addition, the requirements that must be met for accounting for financial instruments classified as hedges, as well as documentation and monitoring to prove their effectiveness, involves a certain degree of specialization applied by Management. Therefore, we have considered the determination of the fair value of some over the counter derivative financial instruments and hedging operations as a key matter of our audit.	As part of our audit procedures, we obtained evidence of the approval by the Bank's Risk Committee, of the valuation model for derivative financial instruments and hedging operations used by Management. Likewise, on a sample basis, we evaluated the reasonableness of those models and inputs used, through the involvement of our valuation specialists. In addition, on a sample basis, we assessed the fair value determination of the derivative products and hedging operations, the proper compliance with the criteria and documentation to be considered as such, as well as their effectiveness.

Current income tax \$1,638 and Employee statutory profit sharing (ESPS) \$513 Deferred income tax \$8,019 and Deferred ESPS for \$8,019 (asset) in the consolidated balance sheet	
See notes 3(t) and 18 to the consolidated financial statements.	
Key audit matter	**How the key audit matter was addressed in our audit**
Determination of current and deferred income taxes and ESPS is complex, mainly due to the interpretation of the legislation in force in the tax matters and requires of judgement mainly in the valuation of deferred tax assets and ESPS to evaluate both current and future factors that allow to estimate the realization of such assets. Therefore, we consider the determination of current and deferred income tax and ESPS as a key audit matter.	The audit procedures applied to assess the reasonableness of the calculations determined by Management for the recognition of current and deferred income taxes and ESPS, included, among others, sample tests of both the inputs and the nature of the items used in the calculation, considering the legislation in force in tax matters. With the involvement of our tax specialists, we assessed the reasonableness of the significant tax assumptions, the reversal period of the temporary differences, as well as the reasonableness of the tax strategies applied by the Bank's Management. In addition we assessed the tax profit projections determined by the Bank's Management that support the probability of the realization of deferred income tax assets and ESPS.

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Other information

Management is responsible for the other information. The other information comprises the information included in the Bank's Annual Report for the year ended December 31, 2021 which will be provided to the Banking Commission and the Mexican Stock Exchange (the Annual Report), but does not include the consolidated financial statements and our auditors' report thereon. The Annual Report is estimated to be available to us after the date of this auditors' report.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information when 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 otherwise appears to be materially misstated.

When we read the Annual Report, if we conclude that there is a material misstatement of this other information, we are required to report that fact to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the consolidated financial statements

Management is responsible for the preparation of the consolidated financial statements in accordance with the Accounting Criteria issued 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

(Continued)

As part of an audit in accordance with ISAs, we exercise professional judgement 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, then 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 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 those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and where applicable, actions taken to remove threats or safeguards applied.

(Continued)

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 auditors' 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.

KPMG Cárdenas Dosal, S. C.

Ricardo Lara Uribe

Mexico City, March 18, 2022.

Scotiabank Inverlat, S. A.,
Institución de Banca Múltiple, Grupo Financiero Scotiabank Inverlat
and subsidiaries

Lorenzo Boturini 202, Col. Tránsito, C.P. 06820, Mexico City

Consolidated balance sheets

These consolidated financial statements have been translated from the Spanish language original solely for the convenience of foreign / English-speaking readers

December 31, 2021 and 2020

(Millions of Mexican pesos)

Assets	**2021**	**2020**
Cash and cash equivalents (note 6)	$ 56,942	29,955
Margin accounts (note 7)	488	2,730
Investment securities (note 8):		
Trading	60,983	56,214
Available-for-sale	62,066	64,608
Held-to-maturity	5,135	5,048
	128,184	125,870
Debtors on repurchase/resell agreements (note 9)	12,247	27,859
Derivatives (note 10):		
Trading purposes	19,073	19,990
Hedging purposes	4,734	4,006
	23,807	23,996
Valuation adjustment from hedging of financial assets (notes 8a and 11c)	(298)	576
Current loan portfolio (note 11):		
Commercial loans:		
Business or commercial activity	185,172	179,410
Financial entities	20,898	28,878
Government entities	16,023	9,011
	222,093	217,299
Consumer loans	34,876	39,036
Residential mortgage loans:		
Medium and residential	157,571	140,986
Social interest housing	5	7
Loans acquired from INFONAVIT	6,253	5,217
	163,829	146,210
Total current loan portfolio	420,798	402,545
Past-due loan portfolio (note 11):		
Commercial loans:		
Business or commercial activity	8,173	4,770
Financial institutions	47	82
Consumer loans	1,390	2,526
Residential mortgage loans:		
Medium and residential	7,163	5,174
Social interest housing	13	18
Loans acquired from INFONAVIT	157	91
Total past-due loan portfolio	16,943	12,661
Loan portfolio	437,741	415,206
Less:		
Allowance for loan losses (notes 11(f) and (g))	16,702	17,063
Total loan portfolio, net	421,039	398,143
Other accounts receivable, net (notes 6, 8 and 10f)	11,484	12,564
Foreclosed assets, net (note 12)	132	201
Premises, furniture and equipment, net (note 13)	4,279	3,380
Permanent investments (note 14)	52	51
Available-for-sale long-term assets	17	22
Deferred income taxes, net (note 18)	8,019	6,662
Other assets:		
Deferred income charges, prepaid expenses and intangibles	8,241	5,754
Total assets	$ 674,633	637,763

Liabilities and stockholders' equity	**2021**	**2020**
Deposit funding (note 15):		
Demand deposits	$ 209,746	202,354
Time deposits:		
General public	196,254	154,621
Money market	4,303	15,536
Debt securities issued	30,891	33,000
Global account of deposits without movements	862	614
	442,056	406,125
Bank and other borrowings (note 16):		
Short-term	17,336	33,146
Long-term	31,071	33,466
	48,407	66,612
Traded securities to be settled (note 8b)	4,875	3,193
Creditors on repurchase/resell agreements (note 9)	57,646	42,891
Collaterals sold or pledged		
Securities lending (note 9)	1,557	523
Derivatives (note 10):		
Trading purposes	19,024	20,066
Hedging purposes	3,936	6,232
	22,960	26,298
Valuation adjustments of hedging financial liabilities (note 15c)	8	13
Other accounts payable:		
Income tax payable (note 18)	570	1,571
Employee profit sharing payable (note 18)	523	-
Creditors on settlement of transactions (notes 6, 8 and 9)	4,065	11,931
Creditors on collateral received in cash (note 10f)	961	887
Sundry creditors and other accounts payable	13,070	11,695
	19,189	26,084
Subordinated debt issued (note 19)	9,054	9,052
Deferred credits and prepayments	1,529	1,651
Total liabilities	607,281	582,442
Stockholders' equity (note 20):		
Controlling interest		
Paid-in capital:		
Capital stock	10,458	10,404
Additional paid-in capital	1,117	473
	11,575	10,877
Earned capital:		
Statutory reserves	7,060	6,758
Retained earnings	39,157	36,432
Result from valuation of available-for-sale securities (notes 8 and 18)	(111)	416
Result from valuation of cash flow hedge instruments (notes 10 and 18)	379	(1,161)
Remeasurements of defined employee benefits (notes 17 and 18)	(127)	(1,020)
Net income	9,418	3,019
	55,776	44,444
	67,351	55,321
Non-controlling interest	1	-
Total stockholders' equity	67,352	55,321
Commitments and contingent liabilities (note 24)		
Subsequent events (note 26)		
Total liabilities and stockholders' equity	$ 674,633	637,763

Scotiabank Inverlat, S. A.,
Institución de Banca Múltiple, Grupo Financiero Scotiabank Inverlat
and subsidiaries

Lorenzo Boturini 202, Col. Tránsito, C.P. 06820, Mexico City

Consolidated balance sheets, continued

December 31, 2021 and 2020

(Millions of Mexican pesos)

Memorandum accounts (note 22)

	2021		2020	
Loan commitments		$ 274,903		$ 276,490
Assets in trust or under mandate:				
Trusts	$ 395,369		$ 397,695	
Mandate	29,096	424,465	29,006	426,701
Assets in custody or under management		550,131		593,803
Collateral received by the entity		22,662		36,721
Collateral received and sold or pledged by the entity		2,759		523
Investments on behalf of customers		134,801		135,628
Interest earned but not collected arising from past-due loan portfolio		937		644
Other accounts		$ 1,526,208		$ 1,466,294

"At December 31, 2021 and 2020, the historical capital stock amounts to $9,207 and $9,153, in both years".

See accompanying notes to 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 a general and mandatory, nature and have been applied on a consistent basis. Accordingly they reflect 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	SIGNATURE	SIGNATURE	SIGNATURE
Adrián Otero Rosiles General Director of Scotiabank Inverlat, S. A., Institución de Banca Múltiple, Grupo Financiero Scotiabank Inverlat	Carlos Marcelo Brina Deputy General Director of Finance	Jorge Córdova Estrada Deputy General Director of Group Audit	H. Valerio Bustos Quiroz Director of Group Accounting

"These consolidated balance sheets faithfully match with the consolidated statements of balance sheets originals, which are properly signed and held by the Institution."

http://www.scotiabank.com.mx/es-mx/Acerca-de-Scotiabank/Relacion-con-Inversionistas/Relaciones-con-Inversionistas/estados-financieros.aspx
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Lorenzo Boturini 202, Col. Tránsito, C.P. 06820, Mexico City

Consolidated statements of income

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Years ended December 31, 2021 and 2020

(Millions of Mexican pesos)

		2021	2020
Interest income (note 23b)	$	44,214	48,275
Interest expense (note 23b)		(19,888)	(23,083)
Financial margin		24,326	25,192
Allowance for loan losses (notes 11(f) and (g))		(4,083)	(10,164)
Financial margin adjusted by credit risks		20,243	15,028
Commission and fee income (note 23c)		5,491	4,845
Commission and fee expense		(874)	(1,020)
Financial intermediation income (note 23d)		1,431	2,334
Other operating income, net (note 23e)		2,386	1,732
Administrative and promotional expenses		(16,802)	(18,920)
		(8,368)	(11,029)
Net operating income		11,875	3,999
Equity method in the results of associated companies		1	1
Income before income taxes		11,876	4,000
Current income taxes (note 18)		(1,638)	(2,677)
Deferred income taxes, net (note 18)		(819)	1,696
		(2,457)	(981)
Net income	$	9,419	3,019
Non-controlling interest		1	-
Net result of non-controlling interest		9,418	3,019

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, they reflect the revenues and disbursements relating to the transactions carried out by the Institution for the years noted above. Furthermore, these transactions were carried out and valued in accordance with sound banking practices and the applicable legal and administrative provisions."

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

SIGNATURE

Adrián Otero Rosiles
General Director of Scotiabank Inverlat, S. A., Institución de Banca Múltiple, Grupo Financiero Scotiabank Inverlat

SIGNATURE

Carlos Marcelo Brina
Deputy General Director of Finance

SIGNATURE

Jorge Córdova Estrada
Deputy General Director of Group Audit

SIGNATURE

H. Valerio Bustos Quiroz
Director of Group Accounting

"These consolidated statements of income faithfully match with the consolidated statements of income originals, which are properly signed and held by the Institution."

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Scotiabank Inverlat, S. A.
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Lorenzo Boturini 202, Col. Tránsito, C.P. 06820, Mexico City

Consolidated statements of changes in stockholders' equity

These consolidated financial statements have been translated from the Spanish language original solely for the convenience of foreign / English-speaking readers

Years ended December 31, 2021 and 2020

(Millions of Mexican pesos)

	Paid-in capital		Earned capital								
	Capital stock	Additional paid-in capital	Statutory reserves	Retained earnings	Result from valuation of available-for-sale securities	Result from valuation of cash flow hedge instruments	Remeasurements of defined employee benefits	Net income	Controlling interest	Non-controlling interest	Total stockholders' equity
Balances as of December 31, 2019	10,404	473	6,264	31,961	61	(104)	(811)	4,948	53,196	–	53,196
Changes resulting from stockholders' resolutions:											
Resolution passed at the Ordinary General Stockholders' Meeting of April 30, 2020:											
Creation of capital reserves	–	–	494	–	–	–	–	(494)	–	–	–
Appropriation of the 2019 net income	–	–	–	4,454	–	–	–	(4,454)	–	–	–
	–	–	494	4,454	–	–	–	(4,948)	–	–	–
Changes related to the recognition of comprehensive income (note 20c):											
Net income	–	–	–	–	–	–	–	3,019	3,019	–	3,019
Valuation effects of available-for-sale securities and cash flow hedge instruments, net of deferred taxes for $261 (notes 8a, 10 and 18)	–	–	–	–	355	(1,057)	–	–	(702)	–	(702)
Remeasurements of defined employee benefits, net of deferred taxes for $44 (notes 17 and 18)	–	–	–	17	–	–	(209)	–	(192)	–	(192)
Total comprehensive income	–	–	–	17	355	(1,057)	(209)	3,019	2,125	–	2,125
Balances as of December 31, 2020	10,404	473	6,758	36,432	416	(1,161)	(1,020)	3,019	55,321	–	55,321
Changes resulting from stockholders' resolutions:											
Resolution passed at the Ordinary General Stockholders' Meeting of April 30, 2020:											
Creation of reserves	–	–	302	–	–	–	–	(302)	–	–	–
Appropriation of the 2020 net income	–	–	–	2,717	–	–	–	(2,717)	–	–	–
Resolution passed at the Ordinary General Stockholders' Meeting of June 30, 2021:											
Subscription of new shares	54	644	–	–	–	–	–	–	698	–	698
	54	644	302	2,727	–	–	–	(3,019)	698	–	698
Changes related to the recognition of comprehensive income (note 20c):											
Net income	–	–	–	–	–	–	–	9,418	9,418	1	9,419
Valuation effects of available-for-sale securities and cash flow hedge instruments, net of deferred taxes and ESPS for $501 (notes 8a, 10 and 18)	–	–	–	–	(527)	1 ,540	–	–	1,013	–	1,013
Remeasurements of defined employee benefits, net of deferred and ESPS taxes for $175 (notes 17 and 18)	–	–	–	8	–	–	893	–	901	–	901
Total comprehensive income	–	–	–	8	(527)	1 ,540	893	9,418	11,332	1	11,333
Balances as of December 31, 2021	$ 10,458	1,117	7,060	39,157	(111)	379	(127)	9,418	67,351	1	67,352

See accompanying notes to consolidated financial statements.

"These consolidated statements of changes in stockholders' equity were prepared in accordance with 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, they reflect all the stockholders' equity account entries relating to the transactions carried out by the Institution for the years 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

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Adrián Otero Rosiles
General Director of Scotiabank Inverlat, S. A., Institución de Banca Múltiple, Grupo Financiero Scotiabank Inverlat

SIGNATURE

____
Carlos Marcelo Brina
Deputy General Director of Finance

SIGNATURE

____
Jorge Córdova Estrada
Deputy General Director of Group Audit

SIGNATURE

____
H. Valerio Bustos Quiroz
Director of Group Accounting

"These consolidated statements of changes in stockholders' equity faithfully match with the consolidated statements of changes in stockholders' equity originals, which are properly signed and held by the Institution."

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Consolidated statements of cash flows

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Years ended December 31, 2021 and 2020

(Millions of Mexican pesos)

	2021	2020
Net income	$ 9,419	3,019
Items not requiring cash flow:		
Impairment allowance or impairment reversal in investing and financing activities	(46)	37
Depreciation of premises, furniture and equipment	579	502
Amortization of deferred charges, prepaid expenses and intangible assets	545	418
Provisions, mainly allowance for loan losses	1,944	9,001
Current and deferred income taxes	2,457	981
Equity method in associated companies	(1)	(1)
Other, mainly fair value valuation	2,533	(306)
Subtotal	8,011	10,632
Operating activities:		
Change in margin accounts	2,242	(1,713)
Change in investment securities	(591)	(37,161)
Change in debtors on repurchase / resell agreements	15,611	(25,285)
Change in derivatives (asset)	467	(10,912)
Change in loan portfolio	(26,978)	(6,182)
Change in foreclosed assets	53	(93)
Change in other operating assets	4,611	7,564
Change in deposit funding	37,318	41,255
Change in bank and other borrowings	(18,204)	10,970
Change in creditors on repurchase / resell agreements	14,754	(6,244)
Change in collaterals sold or pledged	1,035	523
Change in derivatives (liabilities)	(3,362)	11,868
Change in subordinated debt issued	2	6
Change in other operating liabilities	(11,816)	(3,691)
Payments of income taxes	(2,452)	(1,899)
	12,690	(20,994)
Net cash flows from operating activities	30,120	(7,343)
Investing activities:		
Proceeds from sale of property, furniture and equipment	30	-
Payments for acquisition of property, furniture and equipment	(872)	(473)
Collections of cash dividends	1	1
Payments for intangible assets acquisition	(2,292)	(173)
Net cash flows from investing activities	(3,133)	(645)
Net decrease in cash and cash equivalents	26,987	(7,988)
Cash and cash equivalents at beginning of the year	29,955	37,943
Cash and cash equivalents at end of the year	$ 56,942	29,955

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, they reflect all the cash in flows and cash out flows relating to the transactions carried out by the Institution for the years 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

Adrián Otero Rosiles
General Director of Scotiabank Inverlat, S. A., Institución de Banca Múltiple, Grupo Financiero Scotiabank Inverlat

SIGNATURE

Carlos Marcelo Brina
Deputy General Director of Finance

SIGNATURE

Jorge Córdova Estrada
Deputy General Director of Group Audit

SIGNATURE

H. Valerio Bustos Quiroz
Director of Group Accounting

"These consolidated statements of cash flows faithfully match with the consolidated statements of cash flows originals, which are properly signed and held by the Institution."

http://www.scotiabank.com.mx/es-mx/Acerca-de-Scotiabank/Relacion-con-Inversionistas/Relaciones-con-Inversionistas/estados-financieros.aspx
www.cnbv.gob.mx/paginas/default.aspx

These consolidated financial statements have been translated from the Spanish language original solely for the convenience of foreign/English-speaking readers.

(1) Activity and outstanding operation-

a) Activity

Scotiabank Inverlat, S. A., Institución de Banca Múltiple, Grupo Financiero Scotiabank Inverlat ("the Bank"), located in Lorenzo Boturini 202, 2nd floor, Tránsito, 06820 in Mexico City is an entity constituted under the Mexican laws. The Bank is a subsidiary of Grupo Financiero Scotiabank Inverlat, S. A. de C. V. ("the Group") which owns 99.99% of its capital stock. The Group, in turn, is a subsidiary of The Bank of Nova Scotia ("BNS"), which owns 97.4% of its capital stock. In accordance with the Credit Institutions Law, the Bank is authorized to carry out multiple-service banking transactions such as accepting deposits from the general public, granting and receiving loans, engaging in securities transactions and providing trust services, among others. The consolidated financial statements of the Bank include the operation of its subsidiaries for whom exercises control: Inmobiliaria Scotia Inverlat, S. A. de C. V. (Inmobiliaria); Scotia Servicios de Apoyo, S. A. de C. V. (Scotia Servicios) which supports the management of the credit card business; Scotia Inverlat Derivados, S. A. de C. V. (Scotia Derivados) which acts as trading member for futures and options contracts listed on the Mercado Mexicano de Derivados, S. A. de C. V. (MexDer) and is also holding company of two trusts named, Fideicomiso Socio Liquidador Posición Propia Número 101667 and Fideicomiso Socio Liquidador Posición de Terceros Número 10177 (MexDer Trusts), created for the purpose of entering into futures, options and swaps contracts for the Bank's own account and on behalf of third parties, respectively. The Bank operates all over the Mexican territory and its corporate headquarters are located in Mexico City.

b) Outstanding operation

Merge of Servicios Corporativos Scotia, S. A. de C. V.

On June 30, 2021, the Extraordinary General Meeting of Shareholders was held, where the merge of Servicios Corporativos Scotia, S. A. de C. V. ("SECOSA"), as a "Merged Company" with the Bank as a "Merging Company", was approved, extinguishing SECOSA.

On July 1, 2021, the Bank and SECOSA, its related party, obtained the necessary authorizations from the Ministry of Finance and Public Credit (SHCP), the Bank of Mexico (Central Bank) and the National Banking and Securities Commission (the Banking Commission) to carry out the merge of SECOSA as a merged company that is extinguished, with the Bank, as a surviving merging company.

In accordance with the General Law on Commercial Companies, when the merge takes effect, all the assets, liabilities, rights, obligations and responsibilities of the merged company are incorporated into the merging company, without reservation or limitation. Below are the goods, assets and rights, as well as the liabilities that were incorporated into the Bank as a result of the merge.

(Continued)

Scotiabank Inverlat, S. A.,
Institución de Banca Múltiple, Grupo Financiero Scotiabank Inverlat
and subsidiaries

Notes to the consolidated financial statements

(Millions of Mexican pesos)

		Before the SECOSA merge Merge Entity	Before the Bank merge Merging Entity	After the Bank merge Merging Entity
Assets:				
Cash and cash equivalents	$	1,388	54,565	55,953
Margin accounts		-	2,674	2,674
Investment securities		-	142,500	142,500
Debtors on repurchase		-	29,430	29,430
Derivatives		-	19,720	19,720
Valuation adjustment from hedging of financial assets		-	76	76
Loan portfolio		-	411,327	411,327
Allowance for loan losses		-	(16,741)	(16,741)
Other accounts receivable		609	25,377	25,986
Foreclosed assets		-	109	109
Properties		636	1,582	2,218
Permanent investments		-	3,307	3,307
Long-term assets		-	22	22
Deferred taxes		875	6,239	7,114
Other		1,382	5,996	7,378
Total Assets	**$**	**4,890**	**686,183**	**691,073**
Liabilities:				
Deposits funding	$	-	437,593	437,593
Bank and other borrowings		-	56,310	56,310
Traded securities to be settled		-	20,149	20,149
Creditors on repurchase/resell agreements		-	51,886	51,886
Collaterals sold		-	323	323
Derivatives		-	20,199	20,199
Valuation adjustments of hedging financial liabilities		-	10	10
Other accounts payable		4,192	29,482	33,674
Subordinated debt issued		-	9,049	9,049
Deferred credits and prepayments		-	1,528	1,528
Total Liabilities:	**$**	**4,192**	**626,529**	**630,721**
Net assets received in the merge:	**$**	**698**	**59,654**	**60,352**

(2) Authorization and basis for presentation-

Authorization

On March 18, 2022, Adrián Otero Rosiles (General Director of Scotiabank Inverlat, S. A., Institución de Banca Múltiple, Grupo Financiero Scotiabank Inverlat), Carlos Marcelo Brina (Deputy General Director of Finance), Jorge Córdova Estrada (Deputy General Director of Group Audit) and H. Valerio Bustos Quiroz (Director of Group Accounting) authorized the issuance of the accompanying consolidated financial statements and related notes.

(Continued)

The Bank's consolidated financial statements include the Bank's subsidiaries on which the Bank exercises control: Inmobiliaria, Scotia Servicios and Scotia Derivados. Significant balances and transactions with the Bank’s companies have been eliminated in preparing the consolidated financial statements.

The consolidation was carried out using the audited financial statements of the subsidiaries at December 31, 2021 and 2020.

The Stockholders and the Banking Commission are empowered to modify the consolidated financial statements after issuance. The attached 2021 financial statements will be submitted to the next shareholders' meeting for approval.

Basis of presentation

a) Statement of compliance

The accompanying consolidated financial statements have been prepared, based on the banking legislation, in conformity with the accounting criteria established by the Banking Commission (the Accounting Criteria) for credit institutions in Mexico. The Banking Commission is responsible for the inspection and supervision of financial institutions, as well as reviewing their financial information.

The accounting criteria provide that in the absence of an specific accounting criterion of the Banking Commission for credit institutions, and in a wider context the Mexican Financial Reporting Standards (MFRS), issued by the Mexican Board of Financial Reporting Standards (Consejo Mexicano de Normas de Información Financiera, A. C. or CINIF), the suppletory process as established by MFRS A-8 shall be applicable, and only when the International Financial Reporting Standards (IFRS) referred to by MFRS A-8 do not resolve the accounting treatment, the suppletory application of an accounting standard pertaining to other regulatory framework may be opted for, providing all the requirements set out by the MFRS are met by the standard. The suppletory application shall be in the following order: U.S. Generally Accepted Accounting Principles (US GAAP), and later any other formal and recognized accounting standard, provided they do not contravene the accounting criteria of the Banking Commission.

b) Use of estimates and judgments

The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and assumptions.

(Continued)

Judgments

Information about judgments made in applying of accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements is described in the notes to the consolidated financial statements mentioned below.

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 following notes to the consolidated financial statements:

— Valuation of derivative financial instruments: key assumptions to determine the market value, especially those complex derivatives or without an active market (see note 10);

—Determination of allowance for loan losses: assumptions and inputs used in determination (see notes 11(f) and (g));

—Impairment of premises, furniture and equipment: evidence of impairment of the value of fixed assets, including key assumptions for the determining the recoverable amount of such assets (see note 13);

—Measurement of defined benefit obligations: key actuarial assumptions (see note 17);

— Recognition of deferred tax assets and employee statutory profit sharing (ESPS): availability of future taxable profits and the materialization of deferred taxes and ESPS (see note 18).

c) Functional and reporting currency

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

For purposes of disclosure in the notes to the consolidated financial statements, “pesos” or “$” refers to millions of Mexican Pesos, and when reference is made to “dollars” or “USD”, it means millions dollars of the United States of America.

d) Recognition of assets and liabilities related to financial instruments

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

(Continued)

(Millions of Mexican pesos)

(3) Summary of significant accounting policies-

The accounting policies shown in the preparation of the consolidated financial statements presented below have been consistently applied by the Bank during 2021.

(a) Recognition of the effects of inflation-

The accompanying consolidated financial statements include the recognition of inflation based on Investment Units (Unidades de Inversión or UDI) until December 31, 2007, according to the applicable accounting criteria.

Years ended December 31, 2021 and 2020, are considered non-inflationary economic environment (inflation accumulated over the three preceding years less than 26%), as established in MFRS B-10 "Effects of Inflation", consequently the effects of inflation on the Bank's financial information are not recognized. Should the Bank be back in an inflationary environment, the cumulative effects of inflation not recognized in prior periods must be retrospectively recognized from the last period that the economic environment was considered as inflationary. The accumulated inflation rate of the three preceding years, is shown below:

		Inflation	
December 31,	**UDI**	**Annual**	**Accumulated**
2021	7.108233	7.61%	14.16%
2020	6.605597	3.23%	11.31%
2019	6.399018	2.77%	15.03%

(b) Offsetting of financial assets and financial liabilities-

The recognized financial assets and liabilities are offset so that the debit or creditor balance is presented in the consolidated balance sheet, as applicable, only if, there is the contractual right to offset the recognized amounts, and the intention to settle the net amount, or to realize the asset and cancel the liability, simultaneously.

(c) Principles of consolidation-

The consolidated financial statements include the accounts of the Bank and those of its subsidiaries which it controls. All significant inter-company balances and transactions have been eliminated in consolidation.

(Continued)

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

Subsidiaries	Participation	Location	Activity
Inmobiliaria	99.99%	Mexico City	Fixed asset management
Scotia Servicios	99.99%	Mexico City	Supports the administration of the credit card acquiring business
Scotia Derivados	99.99%	Mexico City	Futures and options contract operator in MexDer

(d) Cash and cash equivalents-

Cash and cash equivalents consist of cash in hand, deposits with banks in pesos and dollars, as well as foreign currency purchase and sale transactions not considered derivatives according to the applicable regulation established by Central Bank. This caption also includes restricted cash and cash equivalents comprised of bank borrowings with original maturities of up to three days ("Call Money") and deposits in the Central Bank which include the regulation monetary deposits that the Bank is required to maintain in conformity with the provisions issued by the Central Bank for the purpose of regulating liquidity in the financial market; the deposits lack term and bear interest at the average funding rate, which are recognized in the income statement as accrued.

The cash and cash equivalents are recognized at nominal value. For the bank accounts denominated in dollars, the exchange rate used for the translation is the one published by the Central Bank. The translation effect and interests earned are recognized in the income statement, as interest income or interest expense, accordingly, on an accrual basis.

Additional contributions or withdrawals made by the Bank to the cash margin account are also recognized as other cash and cash equivalents.

Immediate collection notes will be recorded as other cash equivalent according to what is mentioned as follows:

- Transactions with Mexican entities: two business days after the transaction took place.
- Transactions with foreign entities: five business days after the transaction took place.

(Continued)

When the notes mentioned in the preceding paragraph are not collected within the established deadlines, the related amounts will be transferred to the originating item, as applicable, either “Other accounts receivable, net” or “Loan portfolio”, and due consideration should be given to the provisions of criterion A-2, “Application of particular standards”, and B-6 “Loan portfolio”, respectively.

Transactions transferred to sundry debtors under the caption “Other accounts receivable”, not settled within fifteen days following the transfer date will be classified as past-due debts and an allowance for their total amount recorded will be recorded concurrently.

Notes received subject to collection are recorded in memorandum accounts under the caption “Other accounts”.

Checking account overdrafts, as reported in the statement of account issued by the corresponding credit institution, are shown in the caption “Sundry creditors and other accounts payable”. Likewise, the offset balance of receivable currencies against deliverable currencies, in case this results a credit balance.

The Bank yield generated by deposits in financial entities, bank borrowings operations agreed to a term of less than or equal to 3 business days, as well as the valuation effects of those made in foreign currency, are presented in the consolidated income statement, under the caption "Interest income" or "Interest expense", as applicable.

The foreign exchange currencies acquired and agreed to be settled in purchase transactions to 24, 48, 72 and 96 hours, are recognized as restricted cash (foreign currency receivable), while the currency sold is 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 the caption "Other accounts receivable, net" and "Creditors on settlement of transactions”, respectively.

(e) Margin accounts-

Financial assets granted in cash required to the Bank to operate derivatives in recognized markets are recorded at par value and presented in the caption “Margin accounts”. The value of margin accounts granted in cash is modified by margin calls or withdrawals made by the clearing house and for additional contributions or withdrawals made by the Bank.

Bank yields and commissions affecting the margin accounts, other than fluctuations in derivatives prices, are recognized in result of operations for the year as accrued under “Interest income” and “Commission and fee expense”, respectively. The partial or total amounts deposited or withdrawn in the clearinghouse owing to price fluctuations of derivatives are recognized in “Margin accounts”.

(Continued)

The compensation fund of MexDer Trusts is deposited in the Trust 30430 Asigna, Compensación y Liquidación (Asigna) in accordance with the established rules, provisions, internal regulation and operating manual of Asigna and is comprised of cash contributions made by the Trusts based on the open agreements recorded in their accounts and of the minimum initial contributions required by Asigna. The compensation fund is recognized as restricted under the caption "Cash and cash equivalents".

(f) Investment securities-

Investment securities consist of equities, government securities, bank promissory notes, and other debt securities listed in recognized markets, which are classified using the categories shown below, based on the intention and capability of management of the Bank on their ownership regarding their holding at the time of acquiring a certain instrument.

Trading securities-

Trading securities are those acquired with the intention of selling to get short-term gains arising from differences in prices resulting from its trading in the market. Securities at the time of acquisition are accounted for at fair value (which includes, where applicable, the discount or premium) which presumably corresponds to the price paid; transaction costs for the acquisition of securities are recognized in income on the same date.

Subsequently, and on every reporting date, securities are valued at fair value provided by an independent price vendor; valuation effects and results of the buy/sell are recognized in the year's income, within the caption "Financial intermediation income". When the securities are sold, the result of buy/sell is determined by the difference between purchase price and the sale price, this shall reclassify the result of valuation that has been previously recognized in the income statement, to the buy/sell result caption.

Interest earned from debt securities are determined according to the effective interest method and are recognized in the year's income under the caption "Interest income".

Dividends from equity securities are recognized in the year's income when the right to receive payment arises under the caption "Interest income".

(Continued)

Available-for-sale securities-

Available-for-sale securities are those whose intention are not oriented to profit from differences in prices in the short term or does not have the intention or capacity to hold to maturity. The initial recognition and subsequent valuation is performed in the same manner as trading securities, except that the effect of valuation is recognized in stockholders' equity under the caption "Unrealized result from valuation of available-for-sale securities", and which is adjusted by the effect of deferred taxes, which is cancelled for its recognition in income at the time of sale within the caption of "Financial intermediation income".

The valuation of the instruments in this category designated as a heading covered by fair value hedging derivatives, is recognized in the caption "Financial intermediation income".

Interest earned is determined according to the effective interest method and are recognized in the year's income under the caption "Interest income".

Dividends from equity instruments are recognized in the year's income when the right to receive payment arises in the consolidated financial statements caption "Interest income".

Held-to-maturity securities-

Are those debt securities with fixed or determinable payments and with fixed maturity, regarding which the entity has the intention and capacity to hold until maturity. These securities are initially recognized at fair value which is presumably the price paid; and later are valued at amortized cost, which implies that the amortization of the premium or discount as well as the transaction costs form part of interest earned recognized in income under "Interest income". Interest is recognized in income as earned and when the securities are sold, the sales gain or loss is recognized for the difference between the net realizable value and the book value of the securities within the caption of "Financial intermediation income".

Securities' impairment-

When sufficient objective evidence exists that an available-for-sale or held-to-maturity security has been impaired as a result of one or more events that occurred subsequent to initial recognition of the security, the carrying amount of the security is modified and the impairment is recognized in the year-end results under the caption "Financial intermediation income". Regarding available-for-sale securities, the amount of loss recognized in equity is reclassified to the current year results.

If, in a subsequent period, the fair value of the security increases, and this effect is related objectively to an event occurring after the impairment was recognized in the income statement, the impairment is reversed in the year´s results, except if it is an equity instrument.

(Continued)

As of December 31, 2021 and 2020, the Bank's management has not identified that there is objective evidence of the impairment of any security.

Value date transactions-

Securities acquired where settlement takes place on a subsequent date, up to a maximum of four business days following the date of the purchase-sale transaction, are recognized as restricted securities, while securities sold are recognized as securities to be delivered, and are deducted from investments securities; the counter entry is a credit or debit to a settlement account, as applicable. Where the amount of securities to be delivered exceeds the balance of own securities of the same type in position (government, bank, equity and other debt securities), this is reflected as a liability under “Traded securities to be settled”.

Reclassifications between categories-

The accounting criteria allows reclassifications from held-to-maturity to available-for-sale category, provided that the Bank does not have the intention or the ability to hold them until maturity. Valuation adjustments at the date of the reclassifications are recognized in stockholders' equity. In the case of reclassifications of securities to the category held to maturity, or of securities from trading to available for sale, this is only permissible with the express authorization of the Banking Commission. Likewise, in the case of sales of held-to-maturity securities, this has to be informed to the Banking Commission. For the years ended December 31, 2021 and 2020, the Bank did not carry out any transfer between categories, nor sales of held-to-maturity securities.

(g) Securities lending-

At the trade date of securities lending transactions, the Bank acting as lender reclassifies securities subject to lending as restricted in the consolidated balance sheet under the caption “Investment securities”, while acting as borrower, securities are recognized in memorandum accounts under the caption "Collaterals received by the entity", according to the guidelines for valuation of criterion B-9 “Assets in custody or under management”.

The accrued premium amount, acting the Bank as a lender or borrower, is recognized in the consolidated income statement, through the effective interest method over the term of the transaction, under the caption "Interest income" or "Interest expense", respectively, against the caption "Securities lending" within asset or liability, as applicable.

In the case that the Bank, as lender, prior to the maturity of the securities lending transaction sells the collateral received or the transaction value as borrower, recognizes the inflow of funds from the sale for the obligation to return such collateral to the lender under the caption “Collateral sold or pledged”, such obligation is initially measured at the agreed price and subsequently at fair value. The valuation effect is presented in the income statement under the caption “Financial intermediation income”.

(Continued)

The difference between the price received and the fair value of the security subject to the transaction or the collateral received, if any at the time of the sale, is presented under the captions of “Financial intermediation income”.

(h) Repurchase/resell agreements-

At the trade date of the repurchase/resell agreement transaction (repo), the Bank acting as seller recognizes either the cash inflow or a debit clearing account, as well as an account payable, whereas when acting as buyer recognizes either the cash outflow or a credit clearing account, as well as an account receivable. Both the account payable and the account receivable are initially stated at the agreed-upon price, representing the obligation to repay or the right to recover the cash, respectively.

Over the term of the repo, the account receivable and the account payable are valued at amortized cost, recognizing the interest on repos in the result of operations for the year as earned, in accordance with the effective interest method. The interest is recognized under the financial statement caption “Interest income” or “Interest expense”, as appropriate. The account receivable and the account payable, as well as the interest earned are reported in the financial statement caption “Debtors under repurchase/resell agreements” and “Creditors under repurchase/resell agreements”, respectively.

The Bank acting as repurchasee recognizes the received collateral in memorandum accounts within the caption of "Collateral received by the entity", in accordance with accounting criterion B-9 “Assets in custody and under management”. Financial assets granted as collateral, when the Bank acting as repurchaser, the financial asset is reclassified on the consolidated balance sheet within the caption of “Investment securities”, reporting it as a restricted asset.

Should the Bank, acting as repurchasee sell or pledge the collateral, the transaction proceeds and an account payable is recorded for the obligation to return the collateral to the repurchaser, which is valued, in the case of sale at fair value, or if pledged in another sale and repurchaser agreement, at amortized cost. The account payable is offset with the account receivable, which is recognized when the Bank acting as repurchasee turn becomes as repurchaser and the debit or credit balance is presented in the consolidated financial statement caption "Debtors under repurchase/resell agreements" or in "Collateral sold or pledged", as applicable.

Additionally, the collateral received, delivered or sold is recognized in memorandum accounts within the caption of "Collateral received and sold or pledged by the entity", in accordance with accounting criterion B-9 “Assets in custody and under management”.

(i) Derivatives-

Transactions with derivative financial instruments comprise those carried out for trading and hedging purposes. Irrespective of their purpose, the derivatives are recognized at fair value.

(Continued)

The valuation effect of the derivatives for trading purposes is shown in the consolidated balance sheet and consolidated statement of income under “Derivatives”, in the assets or liabilities, accordingly, and “Financial intermediation income”, respectively. The effect of the derivatives credit risk (counterparty), must be determined according to the risk area methodology, and must be recognized in results in the period in which it occurs against the supplementary account.

The effective portion of the valuation adjustments of hedges designated for cash flow purposes is recognized in stockholders' equity, under the caption “Unrealized result from valuation of cash flow hedge instruments”, while the ineffective portion of the change in fair value is recognized immediately in the consolidated income statement under "Financial intermediation income", and the counter-account with such effect are presented in the consolidated balance sheet under “Derivatives” caption. The gain or loss associated with the coverage of the forecasted transaction that has been recognized in stockholders’ equity, is reclassified to the consolidated statement of income within the same caption that presents the result of valuation of hedged party attributable to the hedged risk, in the same period during which the hedged forecasted cash flows affect the year’s results of operations.

If the cash flow hedge derivative reaches maturity, is exercised, terminated or the hedge does not meet the requirements to be deemed effective, the hedge designation is de-designated, while the valuation of the cash flow hedge derivative within stockholders' equity remains in this caption and is recognized in the year's results when the forecast transaction occurs, in the same caption which presents the gain or loss of the valuation attributable to the hedged risk.

The gain or loss arising from valuing the fair value hedge derivative is recognized in the consolidated balance sheet under “Derivatives” and in the consolidated statement of income in “Interest income” and “Financial intermediation income”, since they correspond to interest rate hedges of loan portfolio and investments securities classified as available-for-sale, respectively. The result of valuation of the item attributable to the hedged risk is recognized on the consolidated balance sheet under “Valuation adjustments from hedging of financial assets” and recognized in the year’s income in the case of loan portfolio, in “Interest income”, while for investments securities classified as available-for-sale, in “Financial intermediation income”.

Embedded and structured derivatives

The Bank holds embedded derivatives that are not used to hedge positions, solely as part of its trading strategy; and these derivatives are related to structures and / or notes issued under the following circumstances:

Structured notes (bank bonds): Issued deposit funding instruments which through implicit options, can offer guaranteed and / or improve performance of the client's rate (see note 15).

(Continued)

The fair value of the derivative component is recorded under the captions “Derivatives” and “Financial intermediation income”. Accrued interest is recognized under the caption “Interest expense”.

Collaterals pledged and received in over-the-counter derivate transactions-

The collateral is a security obtained to ensure payment of the price agreed in contracts with derivative financial instruments on over-the-counter transactions.

The granting of collateral pledged in cash in over-the-counter derivative transactions are recorded as account receivable under the caption "Other accounts receivable, net", while collateral received in cash are recorded as " Creditors on collateral received in cash”.

The collaterals pledged in securities are recorded as restricted securities by guarantees, and the collaterals received in securities from derivatives transactions are recorded in memorandum accounts.

(j) Settlement of clearing accounts-

Amounts receivable or payable for investment securities, securities repurchase/resell agreements, and/or derivatives, which have expired but have not been settled at the consolidated balance sheet date, including the amounts receivable or payable for purchase or sale of foreign currencies, which are not for immediate settlement or those with a same day value date, are recorded in clearing accounts.

The balances of clearing accounts, credit and debit are offset as long as it has the contractual right to offset amounts recognized, there is an intention to settle on a net basis, realize the asset and settle the liability simultaneously.

The clearing accounts are shown under the financial statement caption “Other accounts receivable, net” or “Creditors on settlement of transactions”, as appropriate.

(k) Loan portfolio-

Represents the balance of the total or partial dispositions of the credit lines provided to clients plus uncollected accrued interest, less interest collected in advance. The allowance for loan losses is presented deducting the loan portfolio balances.

Undrawn credit facilities are recorded in suspense accounts, under “Loan commitments”. The withdrawn amount is recorded into the loan portfolio in the caption of the portfolio as appropriate.

(Continued)

At the time of contracting, transactions with letters of credit are recorded in memorandum accounts under "Loan commitments" which, upon being used by the client or its counterparty are transferred to the loan portfolio.

Loans pledged as collateral, are recognized as restricted credit loans.

INFONAVIT Portfolio-

The portfolio under extension includes housing credits originated by the National Workers Housing Fund Institute (INFONAVIT) acquired by financial entities, and that, under the terms of the INFONAVIT Law, have any extension in force in the payment of the amortization for capital and ordinary interest, at the end of the extension, the portfolio will receive the corresponding treatment of: Ordinary Amortization Regimen (ROA) or Special Amortization Regimen (REA), provided that financial entity is contractually obliged to respect said extension under the same terms as the reference agency.

REA is the form of payment to INFONAVIT of credits whose rights were acquired by the Bank, provided for by the INFONAVIT issued by the Board of Directors of INFONAVIT, which indicate the methodology to make payments on such credits.

ROA is the form of payment to INFONAVIT of credits whose rights were acquired by the Bank, whereby it is agreed that the workers make payments on their credits through salary discounts made by the employer, entity or office.

Past-due loans and interest-

Outstanding loans and interest balances are classified as past-due according to the following criteria:

1. Knowledge that the borrower has filed for bankruptcy, under the Bankruptcy Law.

An exemption exist from the rule mentioned for those loans that continue receiving payment in terms of the Bankruptcy Law under section VIII of article 43, as well as those loans granted under article 75, in relation to sections II and III of article 224 of the mentioned Law, however, if incurred in one of the cases provided in the following numeral 2, they will be recorded as past-due loan portfolio.

2. Its installments have not been fully settled on the terms originally agreed, considering the following:

a) If the debts consist in loans with a single payment of principal and interest at maturity, and have 30 or more calendar past-due days;

b) If the debts refer to loans with a single payment of principal at maturity and periodic payments of interest, and the related interest payment has 90 or more calendar past-due days, or principal has 30 or more calendar past-due days;

c) If debts consist of loans with principal and interest periodic partial payments, including mortgage loans, have 90 or more calendar past-due days;

d) If debts consist of revolving loans, and unpaid for two monthly normal billing periods or, where the billing period is other than monthly, when have 60 or more calendar past-due days; and

e) Overdrafts from checking accounts of clients that has credit lines, and immediate payment notes receivable, upon occurrence of such event.

3. Regarding portfolio “in extension” and mortgage loans, when installments have not been settled in the terms originally agreed and are 90 or more days past due:

a) payments related to loans that the entity acquired from INFONAVIT or from the Housing Fund of the Social Security and Services Institute of the State Workers (FOVISSSTE) in accordance with the corresponding payment method (REA and ROA), as well as

b) loans granted to individuals and aimed at housing remodeling or enhancement, without trading purpose and that are backed by the borrower’s housing saving account.

The transfer of a loan such as those mentioned in number 3 of the preceding page to the past-due loan portfolio shall be subjected to an exceptional term of 180 or more days past due from the date in which:

a) loan resources are available for the purpose for which they were granted;
b) the borrower starts a new job hence having a new employer, or
c) the Bank has received a partial payment for the corresponding amortization. This exception only applies for ROA loans, and when each one of the payments made during the period represent at least 5% of the agreed amortization.

The aforementioned exceptions in sections a), b) and c), shall not be mutually exclusive.

When a loan is transferred to the past-due portfolio, accrual of interest is discontinued and record thereof is kept in memorandum accounts. Also suspending the amortization in financial income accrued in the year's results. Once collected, such interest is recognized directly in consolidated income statement under “Interest income”. Recognition in consolidated income statement of interest income resumes when the portfolio ceases to be considered as past-due.

(Continued)

An allowance is constituted for an amount equal to the total of uncollected accrued interest corresponding to loans deemed past-due at the time the loan is transferred to the past-due portfolio. For past-due loans, which restructuring agrees to the capitalization of earned, uncollected interest previously recorded in memorandum accounts, an allowance is created for the total of such interest amount. The allowance is released when there is evidence of sustained payment.

Past-due loans are reclassified as current when the unpaid balances have been fully paid by the debtor (principal and interest, etc.), except for restructured loans or renewed, which are transferred to current portfolio when sustained payment has been made.

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 an exhibition.

In the cases of credits that the Bank acquires from INFONAVIT, in which it is obligated to respect the terms that the reference organisms contracted with the borrowers, it is considered that there is a sustained payment of the credit, when the borrower has covered without delay the total amount payable of principal and interest, at least one amortization in credits under ROA and three amortizations for credits under REA.

In loans with periodic payments of principal and interest whose amortizations are less than or equal to 60 days in which the periodicity of payment to minor periods is modified due to the application of a restructuring, a sustained payment of the loan is considered, when the borrower shows payment of amortizations equivalent to three consecutive amortizations of the original loan scheme.

In the case of consolidated loans, if two or more loans originate the reclassification to the caption "Past-due loan portfolio", in order to determine the three consecutive amortizations required for the existence of a sustained payment, the original loan repayment scheme should be considered, whose repayments equivalent to the longer term.

Regarding loans with a single payment of principal at maturity, regardless of whether the payment of interest is periodic or at maturity, it is considered that there is a sustained payment of the loan when any of the following assumptions occur:

a) the borrower has covered at least 20% of the original amount of the loan at the moment of the restructuring or renewal or,

b) the amount of interest accrued under the restructuring or renewal payment scheme corresponding to a period of 90 days had been covered.

(Continued)

Prepayment of an amortization of restructured or renewed loan (amortization of restructured or renewed loan that have been paid without the occurrence of natural days equivalent to three consecutive amortizations of the loan amortization schedule or in the case of loans with amortization covering longer periods than 60 calendar days, the payment of an exhibition), other than those with a single payment of principal at maturity, regardless of whether the interest is paid periodically or at maturity, is not considered as a sustained payment.

In any case, in order for the Bank to show that there is sustained payment, in addition to ensuring that the borrower complies with the guidelines for sustained payment indicated in the preceding paragraphs, it must have evidence, at the disposal of the Banking Commission, to justify that the borrower has the payment capacity at the time the restructuring or renewal takes place to respond to the new credit conditions. The minimum evidence to be obtained is outlined below:

i. probability of intrinsic noncompliance by the borrower,
ii. the guarantees granted to the restructured or renewed credit,
iii. the priority of payment against other creditors and,
iv. The liquidity of the borrower before the new financial structure of the financing.

Restructuring and renewals

A loan is considered restructured when the borrower makes any of the following requests to the Bank:

1) Loan guarantee extension or,

2) Changes to the loan original conditions or payment scheme, among which are:

a) Change in the interest rate for the remaining term of the loan contract;

b) Change in the currency or account unit, (for example VSM (number of minimum wages) or UDI);

c) Granting of a waiting period for the compliance of payment obligations agreed upon in the original terms of the contract, except for those who are part of the COVID support programs, or

d) Credit term extension.

Unless there is evidence of sustained payments, past-due loans restructured or renewed shall remain within the past-due loan portfolio.

Loans with a single payment of principal at maturity and periodic interest payments, as well as loans with a single payment of principal and interest at maturity being restructured during the term of the loan or renewed anytime shall be considered as past-due, while there is no evidence of sustained payment.

(Continued)

Current loans that are restructured or renewed, without at least 80% of the original loan term having elapsed, shall be deemed to be current only when the borrower had:

i) paid the total accrued interest, and
ii) paid the original principal loan amount at the renewal or restructuring date.

Current loans that are restructured or renewed during the course of the final 20% of the original term of the loan will be considered as current only when the borrower had:

i) fully paid the total interest accrued;
ii) covered the total original loan amount which at the date of the renewal or restructuring should had been paid, and
iii) paid 60% of the original loan amount.

Renewed or restructured loans where the borrower fails to meet the above conditions will be deemed past-due from the renewal or restructuring date until there is evidence that sustained payments are being made.

Those loans considered revolving, which have been restructured or renewed, will be considered as current when the borrower had paid off the totality of accrued interest, there are no invoicing periods past-due and there is evidence to prove the debtor's repayment capability.

Loan due and payable principal and interest amounts which, at the restructuring date, have been repaid in full and for which one or several of the following loan conditions have been changed, shall not be deemed restructured:

i) Guarantees: only when involving the extension or replacement with better quality guarantees.
ii) Interest rate: when the agreed-upon interest rate is improved.
iii) Currency: provided the rate corresponding to the new currency is applied.
iv) Payment date: only if the change does not represent exceeding or modifying the frequency of payments. In no case shall the change in the payment date enable omitting the payment in any given period.

The loan portfolio restructurings or renewals are made in compliance with the General provisions applicable to credit institutions and the viability of them is analyzed particularly.

(Continued)

The Bank periodically evaluates if a past-due loan should remain in the consolidated balance sheet or be written-off, provided a provision has been created for 100% of the loan amounts. Such write-off is made by cancelling the unpaid loan balance against the allowance for loan losses previously created for each loan. Any recovery derived from loans which were previously written-off is recognized in the year's results. During the first quarter of 2021, the Bank's Administration Updated the criteria on financial punishments for mortgage loans, leaving these from 60 monthly payments due.

Write-downs, cancellations, refunds or discounts are recorded against the provision for loan losses. In case the amount of these items exceeds the provision for loan losses balance related to the loan, a charge to provision is recorded up to the amount of the difference.

Fees

Fees charged for loan origination are recorded as a deferred credit, which shall be amortized against the current year results as interest income, under the linear method during the life of the loan, except those originated by revolving loans which shall be amortized over a 12-month period.

Regarding fees charged for restructurings or renewals, they shall be added to the fees that would have been originated on the basis of the previous section and recognized as deferred credit amortized against the current year results as interests income, under the linear method during the new lifetime of the loan.

In this category the fees recognized after the loan origination, those generated as part of loan maintenance or charged for loans not underwritten shall not be included. In the case of fees charged for credit card annuity, whether it be the first annuity or the followings for renewal, they shall be recognized as a deferred credit and amortized over a 12-month period against the current year results in the caption of “fees and rates charged”.

Fees charged for a credit line origination not yet available shall be recognized as a deferred credit at the date, and amortized against current year´s results as interest income under the linear method over a 12-month period. In the case that the credit line be canceled before the 12- month period, the balance pending to amortize shall be recognized directly in the current year's results under the caption of “fees and rates charged”, at the date of cancelation of the credit line.

Fees and rates others than those charged for loan origination shall be recognized against the current year's results in the caption “fees and rates charged”, at the date of accrual. In the case that one part or the full compensation received for the collection of the corresponding fee or rate be obtained before the accrual of the related income, said prepayment shall be recognized as a liability.

(Continued)

Costs and expenses related to loan origination

The costs and expenses related to loan origination are recorded as a deferred charge, which is amortized to the income statement under the caption “Interest expense” during the average term of the loans, except for origination of revolving loans, which are amortized over a period of 12 months against the expense caption that corresponds according to its nature.

For preceding paragraph purposes, costs and expenses associated with the origination of loans, are only those that are incremental and related directly to activities performed by the entities to grant the loan, for example, credit evaluation of the debtor, evaluation and recognition of guarantees, credit terms negotiations, and closing of cancellation of the operation, including the proportional expense, based on time spent, related to employee benefits of those individuals working on such activities.

Acquisitions of credit portfolio

On the of portfolio acquisition date, the contractual value of the portfolio acquired must be recognized in credit portfolio, according to the type of portfolio that the originator has classified; the difference arising from the purchase price will be recorded as shown below:

a) when the acquisition price is lower than the contractual value thereof, in the income statement under “Other operating income, net”, for up to the amount of allowance for loan losses that, if applicable, is constituted according to the indications of the following paragraph and the excess as a deferred credit, which will be amortized as the respective charges are made, according to the proportion these represent of the contractual value of the credit;

b) when the purchase price of the portfolio is greater than the contractual value, as a deferred charge which will be amortized as the respective charges are made, according to the proportion these represent of the contractual value of the credit;

c) when it comes from the acquisition of revolving credits, the difference will be carried directly to the income statement of the year on the acquisition date.

(Continued)

Special Accounting Criteria (SAC), derived from the health contingency due to COVID-19

Through official communication number P-285/2020 and 026/2020 dated on March 26 and April 15, 2020, respectively, the Banking Commission determined to issue on a temporary basis, the SAC applicable to the support programs granted by the Bank. Subsequently, through official communication number P-325/2020 dated June 23, 2020, the Banking Commission indicated the following:

- The SAC will be applied in a general way to customers who have been affected and whose credits were classified as current as of March 31, 2020.
- The deadline to carry out the restructuring or renewal procedures must conclude no later than July 31, 2020.

The support programs consist of granting borrowers a partial or total deferral of principal and / or interest payments for up to 4 months and with the possibility of extending it to an additional 2 months, granting a total grace period of up to 6 months. It will be 18 months in the case of credits granted to the primary agricultural, cattle rancher, forestry and fishing sectors; and to the industrial, commercial and service sectors that are integrated the primary sectors.

The above will be applicable to the following types of credit and for clients that are classified as current as of March 31, 2020:

a. Loans for residential construction.
b. Individual loans with mortgage guarantee.
c. Revolving and non-revolving loans, aimed at individuals (auto loans, personal loans, payroll loans, credit card and microcredits).
d. Commercial loans for legal entities and individuals with business activity.
e. Trusts as bank debtor.
f. Individual or group microcredits.

For SAC, are not considered as restructures and / or renovations and the following will be considered as current:

1. Loans with "one-time payment of principal at maturity and periodic interest payments, as well as loans with one-time payment of principal and interest at maturity", which are restructured or renewed, will not be considered as past due portfolio in terms of what is established in paragraph 79 of Accounting Criterion B-6 “Loan Portfolio” (the “Accounting Criterion B-6”) contained in Appendix 33 of the single Bank Circular, provided that the borrowers are classified as a current portfolio as of March 31 2020, according to paragraph 12 of Accounting Criterion B-6.

2. For loans with "periodic payments of principal and interest", which are restructured or renewed, they may be considered as current at the time of the performance of that act, without what is applicable in paragraphs 82 and 84 of Accounting Criterion B-6, provided that the borrowers are accounting classified as a current portfolio as March 31, 2020, in accordance with paragraph 12 of Accounting Criterion B-6.

(Continued)

3. Loans that are stipulated to be revolving from the beginning, that are restructured or renewed, will not be considered as past due portfolio in terms of what is established in paragraphs 80 and 81 of Accounting Criterion B-6. This as long as the borrowers are classified for accounting as current portfolio as of March 31, 2020, according to paragraph 12 of Accounting Criterion B-6.

   In relation to the credits mentioned in the previous numerals, they will not be considered as restructured in accordance with paragraph 40 of Accounting Criterion B-6.

4. In case of including write-downs, forgiveness, bonuses or discounts on the loan balance to support borrowers, the Bank may defer the establishment of Allowance for loan losses, when the amount of write-downs, bonuses or discounts is greater than those allowances, a reserve will be established for the difference in a period that does not exceed the year 2020.

Through official communication number 141-5 / 2263/2020 dated September 2, 2020, the Banking Commission extended the term until September 30, 2020 so that the Bank could apply the restructuring or renewal plans for those customers already registered in the support program as of July 31, 2020, and that require two additional months of deferral so that in this way they have the 6-month deferral under the SAC, established in the official letters dated March 26, April 15 and June 23, 2020.

(l) Allowance for loan losses-

Allowance for loan losses represents Bank’s management best estimate of probable losses inherent in the loan portfolio as well as guarantees issued and irrevocable loan commitments.

Commercial loans – The allowances for the commercial loans are based on the individual assessment of the credit risk of borrowers and their classification, in accordance with the general regulations applicable to the methodology for rating of the loan portfolio of credit institutions (the “Provisions”), established by the Banking Commission. Commercial loans shall be subject to credit rating without including those loans with express warranty of Entities of the Federal Public Administration under direct budgetary control, productive State enterprises or those indicated in Section VI of Article 112 of the Provisions, in which the allowance percentage shall be equal to 0.5%.

(Continued)

(Millions of Mexican pesos)

The Provisions use a methodology which classifies the loan portfolio into different groups: in states and municipalities, investment projects with own source of payment, trustees acting under trusts, financial institutions and corporations and individuals with business activity not included in the aforementioned groups; the last group must be divided into two subgroups: corporations and individuals with business activity with annual net sales or revenues greater than 14 million UDIS and less than 14 million UDIS. For purposes of rating projects with own source of payment, the Provisions establish that the rating is calculated using risk analysis of the investment project according to their stage of construction or operation, and through the extra cost of labor and cash flows of the project. For other groups, expected loss methodology is established for credit risk, considering the probability of default, loss given default and exposure at default.

For the loan portfolio granted to corporations and individuals with business activity, with annual net revenues or sales equivalent or higher than 14 million UDIS, the Bank uses the methodology set on Appendix 22 of the Provisions issued by Banking Commission.

Loan portfolio granted to corporations and individuals with business activity, with annual net revenues or sales less than 14 million UDIS, is credit rated through the application of methodology set forth on Appendix 21 of the Provisions. For financial institutions loans, the methodology set forth on Appendix 20 of the Provisions is used, which establishes the concept of probability of default, loss severity and exposure at default.

The estimates carried out at December 31, 2021 and 2020, were determined based on the risk levels and allowance percentage according to the following table:

Risk grade	Range of allowance percentages	
A1	0.000	0.90%
A2	0.901	1.50%
B1	1.501	2.00%
B2	2.001	2.50%
B3	2.501	5.00%
C1	5.001	10.00%
C2	10.001	15.50%
D	15.501	45.00%
E	Higher than 45.00%	

Mortgage loans including those originated and acquired from INFONAVIT-

Allowance for loans losses of mortgage loans is determined using the corresponding balances as of the last day of each month. Furthermore, factors such as the following are taken into consideration: (i) amount payable; (ii) payment made; (iii) house value; (iv) outstanding loan balance; (v) days of delinquency; (vi) loan denomination; and (vii) file documentation. Additionally, for the loans acquired from INFONAVIT, factors, such as viii) ROA, ix) REA and x) extension, are considered. The total amount to reserve for each assessed loan is the result of multiplying the probability of default for the loss given default and exposure at default.

(Continued)

(Millions of Mexican pesos)

In determining the loss given default the loan recovery rate components is used, which is affected if the loan has a guarantee trust or judicial agreement, classifying by regions at the federal boroughs in which such courts reside.

The risk grades and percentages of allowance for loan losses on December 31, 2021 and 2020, are as shown as follows:

Grade of risk	**Range of allowance percentages**	
A1	0.000	0.50%
A2	0.501	0.75%
B1	0.751	1.00%
B2	1.001	1.50%
B3	1.501	2.00%
C1	2.001	5.00%
C2	5.001	10.00%
D	10.001	40.00%
E	40.001	100.00%

Consumer loans-

To calculate the allowance, the consumer loan portfolio is segregated into two groups: a) credit card and other revolving loans, and b) non-revolving loans described in Articles 91 and 92 of the Provisions. The allowance for losses regarding credit card and other revolving loans is calculated on a loan by loan basis, using the figures of the latest known payment period of each loan and other revolving loan and considering the following factors: i) balance due, ii) payment made, iii) credit line, iv) minimum payment requirement, v) payment default, vi) amount payable to the Institution, vii) amount due reported to credit information institutions as well as, viii) borrower’s seniority in the Bank.

In addition, the calculation of allowance for loan losses corresponding to the non-revolving consumer loan portfolio takes into account the following: (i) amount due, (ii) payment made, (iii) days past due, (iv) total term, (v) remaining term, (vi) original loan amount, (vii) original value of the asset, (viii) loan balance and (ix) credit type.

(Continued)

(Millions of Mexican pesos)

The risk grades and percentages of provision for loan losses at December 31, 2021 and 2020, are shown as follows:

	Range of allowance percentages			
Grade of risk	**Non-revolving**		**Credit cards and other revolving loans**	
A1	0.00	2.0%	0.00	3.00%
A2	2.01	3.0%	3.01	5.00%
B1	3.01	4.0%	5.01	6.50%
B2	4.01	5.0%	6.51	8.00%
B3	5.01	6.0%	8.01	10.00%
C1	6.01	8.0%	10.01	15.00%
C2	8.01	15.0%	15.01	35.00%
D	15.01	35.0%	35.01	75.00%
E	35.01	100.0%	Higher than	75.01%

Impaired loan portfolio – For consolidated financial statement disclosure purposes, the Bank considers impaired loans to those commercial loans for which it is determined that there is a considerable probability that they could not be recovered in full, without giving consideration to improvements in risk levels resulting from the secured portion of the loan, as are loans that, although current, result from negotiations in which a forgiveness, reduction or settlement was authorized at the end of the agreed-upon term, and loans payable by individuals classified as undesirable customers.

Additional identified reserves– Are established for those loans, which in management's opinion, may give cause for concern in the future given the particular situation of the customer, the industry or the economy. Furthermore, it includes estimates for items such as normal interest earned but not collected and other items which realization is considered to result in a loss to the Bank, as well as reserves maintained as prescribed by regulations.

Write-offs - The Bank has policies of write-offs for consumer and residential mortgages loans, according to established terms (6 and 60 months, respectively) (35 months for mortgage portfolio during 2020) that determine the practical impossibility of recovery; the write-offs cancel the loan balance against the allowance for loan losses previously recorded. When the loan to be written-off exceeds the balance of its related allowance, before making the write-off, the allowance should be increased up to the amount of the difference. Any amount recovered from previously written-off loans is recognized in income under the caption allowance for loan losses.

(Continued)

(m) Credit card loyalty program-

Based on paragraph 3 of criterion A-4 “Suppletory Application of Accounting Criteria”, issued by the Banking Commission, the Bank had adopted IFRS 15 "Revenue from customer contracts" which incorporates the recognition of revenue derived from customer loyalty programs, and therefore IFRIC 13 "Customer loyalty program" is without effect. According to IFRS 15, a portion of revenue from exchange fees is deferred until the point of time when obligations are entitled, that is to say, when the deliverance of the rewards to which customers are entitled are incurred and amortized to income once that obligation is satisfied.

(n) Other accounts receivable-

Collection rights and the accounts receivable related to debts, whose maturity is agreed from origin to more than 90 calendar days term are evaluated by the Bank’s management to determine the estimated recoverable amount and, as required, to create the corresponding allowance. The balances of other debit items are recorded into the income statement 90 days after their initial recording, if they correspond identified items and 60 days if the balances are unidentified, regardless of their chance of recovery, except for tax-related (VAT included) balances.

In cases where the amount receivable is not realized within 90 calendar days following the date at which they were booked in clearing accounts, they are recorded as past-due and a provision is booked for the total amount.

Overdrafts on checking accounts of customers, which do not have a loan facility for such purposes, shall be classified as past-due debts and credit institutions must simultaneously create a reserve for such classification for the total amount of the overdraft at the time when such event occurs.

(o) Foreclosed assets or assets received in lieu of payment-

Foreclosed assets are recorded on the date the admission order of the judicial sale by which the foreclosure was decreed, became final and conclusive and is immediately available for execution.

Assets received in lieu of payment are recorded on the date the deed of payment, or that on which the transfer of title to the asset is formally executed.

The accounting recognition of a foreclosed assets considers the value of the tangible asset (at the lower of cost or fair value less strictly necessary costs and expenses incurred for foreclosure), as well as the net value of the asset arising the foreclosure. When the net value of the asset arising the foreclosure exceeds the value of the foreclosed asset, the loss is recognized in consolidated income statement caption “Other operating income, net”. Otherwise, the value of the foreclosed asset is adjusted to the net value of the asset.

(Continued)

(Millions of Mexican pesos)

The value of the asset originating the foreclosure and the relevant loan loss allowance set up as of that date are derecognized from the consolidated balance sheet.

Foreclosed assets and promised for sale are restricted to their carrying value; collections received on account of the asset are recorded as a liability. On the date of sale the resulting gain or loss is recognized in the consolidated income statement caption "Other operating income, net".

Reductions in the value of foreclosed assets are valued according to the type of asset concerned, recording such valuation in the consolidated income statement caption “Other operating income, net”. The Bank creates additional provisions that acknowledge signs of impairment from potential value losses over time in foreclosed assets in the year’s results of operations under “Other operating income, net”, which are determined by multiplying the reserve percentage applicable by the value of the foreclosed assets, based on the provisions of foreclosed assets or assets received in payment methodology of the Banking Commission, as show as follows:

	Reserve percentage	
Months elapsed from the date of foreclosure or received in lieu of payment	**Real estate**	**Receivables, furniture, and equipment and investment securities**
Over 6	0%	0%
More than 6 to 12	0%	10%
More than 12 to 18	10%	20%
More than 18 to 24	10%	45%
More than 24 to 30	15%	60%
More than 30 to 36	25%	100%
More than 36 to 42	30%	100%
More than 42 to 48	35%	100%
More than 48 to 54	40%	100%
More than 54 to 60	50%	100%
More than 60	100%	100%

(p) Premises, furniture and equipment-

Premises, furniture and equipment are recorded at acquisition cost. Those assets acquired before December 31, 2007 were adjusted by using factors based on the UDI value from the date of acquisition through that date, which recognition of the effects of inflation on the financial information was suspended according to the MFRS. The components acquired in foreign currency are recorded at the historical exchange rate, that is, the exchange rates in force on the date the asset was acquired.

Depreciation is calculated using the straight-line method, based on the estimated useful lives by the Bank’s management of the corresponding assets.

(Continued)

Depreciation amount of premises, furniture and equipment is determined by subtracting the residual value and, as applicable, the cumulative impairment losses from the acquisition cost. The Bank periodically evaluates premises, furniture and equipment residual values to determine amounts to be depreciated.

The Bank evaluates periodically the net book values of premises, furniture and equipment, to determine whether there is an indication that these values exceed their recoverable amount. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net revenues expected to be generated by the asset. If the net book value of an asset exceeds its recoverable amount, an impairment charge is recognized in the amount by which the carrying amount of the asset exceeds the fair value of the asset. Minor maintenance and repair expenses are recorded in the results when incurred.

(q) Available-for-sale long-term assets-

Long-term assets are classified as available for sale if all the requirements listed below are met:

a) The approving department of the Bank has formally committed to a sales plan.
b) Assets are available for its immediate realization, in its current condition, subject exclusively to the usual and customary terms for the sale of those assets and its sale is highly probable.
c) Actions to find a client and other activities to execute the sales plan are initiated. If no client has been found, it has been identified a potential market, at least.
d) It is expected that the sales plan will be executed in a less than a year term. This requirement is not applicable for those cases where the Bank holds agreements that are in substance purchase options and sale and lease back agreements. An extension to the less than a year period to conclude the sale does not impede the available for sale classification of the asset, as long as the delay is caused for facts and circumstances out of the control of the Bank, and there is sufficient evidence that the Bank is still committed to a sales plan to dispose the asset.
e) There is an adequate estimate of the price of the asset or group of assets.
f) Significant changes or cancellation of the original sales plan are not probable.

Available for sale long term assets that met the mentioned criteria, are valued as of the date of approval of the sales plan at the net book value or at the net sales price, the lowest. Impairment loss must be recognized in the income statement of the year, as applicable.

(r) Permanent investments-

Permanent investments in which the Bank has significant influence or control are valued using the equity method, through which the participation in the results and stockholders' equity of these entities is recognized using the financial statements as of the same date and for the same period as the Bank. It is considered that a company is a subsidiary of the Bank, when it has the power to direct its relevant activities, is exposed or has rights, to variable returns from that participation and has the present capacity to affect those returns through its power over it.

(Continued)

The other permanent investments where there is no control, joint control or significant influence exists are classified as other investments, which are initially recognized and maintained at acquisition cost. Dividends, if any, received from these investments are recognized in consolidated statement of income caption “Other operating income”, except if these relate to periods prior to the acquisition, in which case are decreased from the permanent investment.

(s) Other asset-

This caption includes mainly the intangible assets that relate to internally developed software, which costs are capitalized and amortized against the results of operations for the year in which the software is ready to operate, using the straight-line method over the estimated useful life as determined by the Bank.

In case of any indication of impairment, the potential impairment loss is determined, and if the net carrying value exceeds the recoverable amount the asset value is written down and the impairment loss is recognized in the results of operations for the year.

(t) Income taxes and Employee statutory profit sharing (ESPS)-

Taxes on profits and ESPS caused in the year are determined in accordance with current tax provisions and where appropriate, labor provisions.

The tax caused is presented in the consolidated balance sheet as a liability; when the advances made exceed the tax determined for the year, the excess generated constitutes an account receivable.

Deferred income taxes and ESPS are recorded in accordance with the asset and liability method, which compares their book and tax values. Deferred income taxes and ESPS (assets and liabilities) are recognized for future tax consequences attributable to temporary differences between the values reflected in the financial statements of existing assets and liabilities and their relative tax bases and for tax losses to be recovered. Assets and liabilities for deferred income taxes and ESPS are calculated using the rates established in the corresponding law, which will be applied to the taxable income in the years in which it is estimated that the temporary differences will be reversed. The effect of changes in rates on deferred income taxes and ESPS is recognized in the results of the period in which said changes are approved.

The asset for income tax and deferred ESPS is evaluated periodically, creating, where appropriate, a valuation reserve for those temporary differences for which there could be an uncertain recovery.

Current and deferred income taxes, including deferred ESPS, are presented and classified in the results of the period, except those that originate from a transaction that is recognized in "Other Comprehensive Income" (ORI) or directly in a capital item. accountant.

The ESPS caused is presented under the caption “Administration and promotion expenses”, in the consolidated income statement.

(Continued)

(u) Capital leases (acting as lessee)-

Capital leases transactions are recorded as an asset with its corresponding liability for the equivalent at the lower of the present value of minimum lease payments and the market value of the leased asset. The difference between the face value of minimum lease payments and the obligation mentioned above, is recorded during the lease period in the consolidated income statement under the caption "Other operating income, net". The asset is depreciated in the same way as other assets held in property when it is certain that at the end of the lease contract ownership of the leased asset is transferred, otherwise these are depreciated over the term of the contract.

(v) Deposit funding-

This caption comprises demand and time deposits of the general public, including money market funding, the placement of debt certificates and bank bonds and the global account of deposits without movements. Interest is charged to expense on an accruals basis under “Interest expense”. For instruments sold at a value different to their face value, the difference is recognized as a deferred charge or credit and amortized on a straight-line basis over the term of the respective instrument.

Deposits and investments and their interests in deposit instruments that do not have an expiration date, or that having one are automatically renewed, as well as expired and unclaimed transactions or investments are recorded under the heading "Global account of deposits without movement”. The deposits and investments and their interest without movement within three years counted as being deposited in the global account and whose amount does not exceed per account, to the equivalent of three hundred units of measurement and updating (UMAS), will prescribe in favor of public charity. The Bank will be obligated to deliver the resources corresponding to public charity within maximum period of fifteen day counted from December 31, of the year in which the assumption foreseen is fulfilled.

(w) Provisions-

Based on management’s estimates, the Bank recognizes accruals for present obligations where the transfer of assets or the rendering of services is probable and arises as a consequence of past events.

(x) Bank and other borrowings-

Bank and other borrowings comprise short and long-term loans from domestic and foreign banks, loans obtained through credit auctions with the Central Bank and development fund financing. In addition, this caption includes discounted borrowings with agencies specializing in financing economic, production or development activities. Interest is recognized on an accrual basis under the caption “Interest expense”.

(Continued)

(y) Employees' benefits-

Short-term direct benefits

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

Direct long-term benefits

The Bank's net obligation in relation to direct long-term profits (except for deferred ESPS, see note 17) and which the Bank is expected to pay after twelve months of the most recent balance sheet date that is submitted, is the amount of future benefits that employees have earned in exchange for their service in the current and prior periods. This benefit is discounted to determine its present value. Remeasurements are recognized in results in the period in which they accrue.

Termination Benefits

A liability for termination benefits and a cost or expense is recognized when the Bank has no realistic alternative other than to meet payments or is unable to withdraw the offer of those benefits, or when it meets the conditions to recognize the costs of a restructuring, whichever comes first. If they are not expected to be settled within 12 months of the end of the annual financial year, then they are discounted.

Post-Employment Benefits

Defined Contribution Plan

As of July 1, 2021, the date of the merge with SECOSA, the Bank's net obligation corresponding to the benefit plans defined by pension plans and seniority premium, is calculated separately for each plan, estimating the amount of future benefits that employees have earned in the current year and in previous years, discounting amount and deducting from it, the fair value of the assets of the plan. Until June 30, 2021, the Bank only maintained a defined contribution plan for pensions in which the amounts contributed were directly recognized as expenses in the consolidated income statement, within the heading of "Administration and promotion expenses". Contributions paid in advance are recognized as an asset to the extent that the advance payment results in a reduction in future payments or a cash refund (note 17).

Defined benefit plans

The Bank only maintains a defined benefits plan for pension of the retired personnel, as well as obligations related to corresponding to plans medical benefits, food coupons and life insurance for retirees.

Irrevocable trusts have been established for pension and other post-retirement benefits plans to manage the respective plan funds and assets of retirees of the active employee funds, except for severance compensation.

(Continued)

The obligations for defined benefit plans are calculated annually by certified actuaries in contingent labor liabilities, using the projected unit credit method. When the calculation results in a possible asset for the Bank, the recognized asset is limited to the present value of the economic benefits available in the form of future refunds of the plan or reductions in future contributions thereto. To calculate the present value of economic benefits, any minimum financing requirement should be considered.

The labor cost of current service, which represents the periodic cost of retirees for having completed one more year of working life based on the benefit plans, is recognized in administrative and promotional expenses. The Bank determines the net interest expense (income) on the net defined benefit liability (asset) for the period by multiplying the discount rate used to measure the defined benefit obligation by the beginning balance of the net defined benefit liability (asset), taking into account any changes in the net defined benefit liability (asset) during the period as a result of estimates of contributions and benefit payments.

Modifications to the plans that affect past service cost are recognized in income immediately in the year the modification occurs, with no possibility of deferral in subsequent years. Furthermore, the effects of events of liquidation or reduction of obligations in the period that significantly reduce future service cost and/or significantly reduce the population eligible for benefits, are recognized in income of the period.

Remeasurements resulting from differences between the projected and actual actuarial assumptions at the end of the period, are recognized when incurred as part of OCI within stockholder's equity.

(z) Subordinated debt issued-

The subordinated debt is recorded at contractual value and the interest are recognized on accrual basis in the consolidated income statement under the caption "Interest expense".

(aa) Revenue recognition-

Interest on loans granted including the interbank loans fixed to a term less than or equal to three business days, is recorded in income as earned. Interest on past-due loans is recognized in income upon collection.

The interest collected in advance and origination credits fees are recorded within "Deferred credits and prepayments", and applied to the year's results of operations in "Interest income" and "Commission and fee income", respectively, as accrued or in the term of the credit, as applicable.

Commissions derived from asset custody or administration services, as well as commissions for services related to derivative operations, are recognized in income when the service is provided in the "Commissions and fees charged" caption.

(Continued)

Commissions for fiduciary operations are recognized in results as the service is accrued in the caption "Commissions and fees collected". At the moment in which the debt of said commissions presents 90 or more calendar days of non-payment, the accumulation of said accrued income is suspended and control of these is kept in memorandum accounts; In the event that said accrued income is collected, it is recognized directly in the results of the year.

Commissions for restructuring or renewal of loans are recorded as a deferred loan, which is amortized against the results of the year under the heading of "Interest income", under the straight-line method during the new term of the loan.

Advance charges for interest and loan origination fees are recorded under the caption "Deferred loans and prepayments" and are applied to the results of the year under the caption "Interest income" and "Commissions and fees charged" respectively, as they accrue or within the credit term, as applicable.

Commissions derived from asset custody or administration services, as well as commissions for services related to derivative operations, are recognized in income when the service is provided under the caption "Commissions and fees charged".

Commissions for fiduciary operations are recognized in results as the service is accrued under the caption "Commissions and fees charged". At the moment in which the debt of said commissions presents 90 or more calendar days of non-payment, the accumulation of said accrued income is suspended and control of these is kept in memorandum accounts; In the event that said accrued income is charged, it is recognized directly in the results of the year.

(bb) Foreign currency transactions-

Foreign currency transactions are recognized at the exchange rate prevailing on the date of execution, for consolidated financial statement presentation purposes. In the cases of currencies other than dollars are translated into dollars at the exchange rates as established the Provisions applicable to credit institutions, and the dollar equivalent with the national currency is translated at the exchange rate at the closing trading day determined by the Central Bank.

At the year-end close date of the consolidated financial statements, foreign currency monetary assets and liabilities are translated into pesos at the exchange rate at the closing trading day published by Central Bank, while foreign exchange gains or losses arising from foreign currency translation are recorded in the results of operations for the originating period.

(Continued)

(ab) Contributions to the Institute for Protection of Bank Savings (IPAB, by its acronym in Spanish)-

Among other provisions, the Bank Savings Protection Law created the IPAB, whose purpose is to establish a system to protect the savings of the public and regulate the financial support granted to banking institutions in order to comply with this objective.

According to the Law, IPAB guarantees depositors' accounts up to 400,000 UDIS by individual, corporation or credit institution. The contributions to IPAB are recorded in income statement within the caption "Administrative and promotional expenses".

(ac) Memorandum accounts-

Memorandum accounts corresponds mainly to assets in custody or management and trust transactions.

Client's values held in custody, guarantee or under management, are recorded in the corresponding memorandum accounts in accordance with the accounting criteria established by the Banking Commission, and represent the maximum expected amount at which the Bank is obliged to respond to its clients.

The amounts of the assets in custody or under management are presented in the caption "Assets in custody or under management", while the trust transactions are presented in the caption "Assets in trust or under mandate".

(ad) Contingencies-

Liabilities or important losses related to contingencies are recorded when it is probable that a liability has been incurred and the amount thereof can be reasonably estimated. When a reasonable estimation cannot be made, qualitative disclosure is provided in the notes to the consolidated financial statements. Contingent income, earnings or assets are not recognized until their realization is assured.

(4) Accounting changes-

Use of the closing trading day exchange rate for foreign currency transactions and foreign operations, replacing the FIX exchange rate.

On December 15, 2021, the "Resolution amending the general provisions applicable to credit institutions" of immediate application to its publication was published in the DOF, which establishes changes in accounting criterion A-2 "Application of particular rules" of Appendix 33 "Accounting criteria", referring to the application exchange rate at the closing trading day published by the Central Bank on its webpage www.banxico.org.mx for the application of FRS B-15 "Conversion of foreign currencies".

(Continued)

Likewise, the accounting criterion B-4 "Statement of cash flows" is modified, which establishes the use of the closing trading day exchange rate to the closing date for the determination of profit or loss in changes caused by changes in the exchange rate that are not cash flows, as well as for the conversion of cash flows from a foreign operation and the conversion of balances or flows of cash in foreign currency.

The application of the exchange rate at the closing of the trading day did not result in material accounting changes in the consolidated financial statements.

FRS 2021

In December 2020, the CINIF issued the document called "Improvements to the FRS 2021", which contains specific modifications to some existing FRS.

FRS C-2 "Investment in financial instruments"
FRS C-19 "Financial instruments payable"
FRS C-20 "Financial instruments to collect principal and interest"
FRS D-5 "Leases"

The adoption of these improvements to the FRS were applicable as of January 1, 2022

Special Accounting Criteria issued by the Banking Commission, derived from the health contingency due to COVID-19, applied in fiscal year 2020

As described in the loan portfolio accounting policies, derived from the health contingency caused by COVID-19 and the negative impact on the economy, on March 26, 2020 the Banking Commission temporarily issued Special Accounting Criteria for credit institutions with respect to the consumer, housing and commercial loan portfolio, for customers who have been affected and who were classified as current as of March 31, 2020 (with the exception of those granted to related parties as provided in articles 73, 73 Bis and 73 Bis 1 of the Credit Institutions Law). In relation to special Accounting Criteria, the Bank applied the special Accounting Criteria mentioned in the accounting policies.

The detail by type of portfolio of the amounts that would have been recorded and presented in the consolidated balance sheet and in the consolidated statement of income as of December 31, 2020, if the special Accounting Criteria had not been applied is presented in the next page.

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Remaining effects of COVID 2021 (Unaudited)

Concept	Balances with COVID support	COVID support effects	Balance without COVID support
Balance sheet			
Current loan portfolio:			
Commercial loans	$ 222,093	(223)	221,870
Consumer loans	34,876	(2,408)	32,468
Residential mortgage loans	163,829	(2,070)	161,759
	420,798	(4,701)	416,097
Past-due loan portfolio:			
Commercial loans	8,220	(35)	8,185
Consumer loans	1,390	2	1,392
Residential mortgage loans	7,333	1,522	8,855
	16,943	1,489	18,432
Total loan portfolio	437,741	(3,212)	434,529
Less			
Allowance for loan losses			
Commercial loans	(7,848)	268	(7,580)
Consumer loans	(3,320)	3,379	59
Residential mortgage loans	(2,863)	(241)	(3,104)
Contingent operations and guarantees	(325)	-	(325)
Allowance for loan losses	(14,356)	3,406	(10,950)
Allowance for additional loan losses(1)	(2,346)	(3,859)	(6,205)
	(16,702)	(453)	(17,155)
Total loan portfolio, net	421,039	(3,665)	417,374
Memorandum accounts			
Interest earned but not collected arising from past-due loan portfolio	937	801	1,738
Statement of income			
Loan portfolio interest income:			
Commercial loans	12,838	(29)	12,809
Consumer loans	6,330	(224)	6,106
Residential mortgage loans	15,197	(548)	14,649
Total loan portfolio interest income	34,365	(801)	33,564
Allowance for loan losses			
Commercial loans	2,601	(39)	2,562
Consumer loans	2,089	(1,197)	892
Residential mortgage loans	1,014	241	1,255
Contingent operations and guarantees	92	-	92
Allowance for loan losses	5,796	(995)	4,801
Allowance for additional loan losses	(1,713)	3,859	2,146
Total allowance for loan losses	$ 4,083	2,864	6,947

(1) Includes the remainder of $1,938 due to COVID 19

(Continued)

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Concept	Balances with COVID Support	COVID Support Effects	Balance without COVID support
Balance sheet			
Current loan portfolio:			
Commercial loans	$ 217,299	(26)	217,273
Consumer loans	39,036	402	39,438
Residential mortgage loans	146,210	(2,803)	143,407
	402,545	(2,427)	400,118
Past-due loan portfolio:			
Commercial loans	4,852	26	4,878
Consumer loans	2,526	(484)	2,042
Residential mortgage loans	5,283	2,632	7,915
	12,661	2,174	14,835
Total loan portfolio	415,206	(253)	414,953
Less			
Allowance for loan losses			
Commercial loans	5,719	27	5,746
Consumer loans	4,837	820	5,657
Residential mortgage loans	2,217	1,612	3,829
Contingent operations and guarantees	227	-	227
Allowance for loan losses	13,000	2,459	15,459
Allowance for additional loan losses	4,063	(3,750)	313
	17,063	(1,291)	15,772
Total loan portfolio, net	$ 398,143	1,038	399,181
Memorandum accounts			
Interest earned but not collected arising from past-due loan portfolio	$ 644	234	878

(Continued)

(Millions of Mexican pesos, except otherwise stated)

Concept		Balances with COVID Support	COVID Support Effects	Balance without COVID support
Statements of income				
Loan portfolio interest income:				
Commercial loans	$	16,712	-	16,712
Consumer loans		8,784	(62)	8,722
Residential mortgage loans		14,552	(172)	14,380
Total loan portfolio interest income	$	40,048	(234)	39,814
Allowance for loan losses				
Commercial loans	$	1,061	27	1,088
Consumer loans		4,121	839	4,960
Residential mortgage loans		1,169	1,612	2,781
Contingent operations and guarantees		(3)	-	(3)
Allowance for loan losses		6,348	2,478	8,826
Allowance for additional loan losses		3,816	(3,750)	66
Total allowance for loan losses	$	10,164	(1,272)	8,892

(5) Foreign currency position-

Central Bank regulations require that banks maintain balanced positions in foreign currencies within certain limits. The (short or long) position permitted by the Central Bank is equal to a maximum of 15% of the basic capital computed as of the third immediately preceding quarter. As of December 31, 2021 and 2020, the Bank’s position is within the authorized limits. The foreign currency position is analyzed as follows:

	Millions dollars			Equivalent in pesos	
	2021	**2020**		**2021**	**2020**
Assets	11,791	7,850	$	241,804	156,283
Liabilities	(10,697)	(7,812)		(219,369)	(155,526)
Long position	**1,094**	**38**	**$**	**22,435**	**757**

At December 31, 2021, the position in foreign currency consists of 88.82% in U.S. dollars (75.40% in 2020) and 11.18% in other foreign currencies (24.60% in 2020).

The exchange rate relative to the U.S. dollar at December 31, 2021 and 2020, was $20.5075 pesos per dollar (exchange rate at the closing trading day) and $19.9087 pesos per dollar, respectively, and on the authorization issuance date of the accompanying consolidated financial statements, was $20.3707 pesos per dollar.

(Continued)

(Millions of Mexican pesos)

(6) Cash and cash equivalents-

Cash and cash equivalents at December 31, 2021 and 2020 are as shown below:

		2021	2020
Cash in hand	$	6,616	6,208
Banks:			
Domestic		20,205	6,215
Foreign		9,121	7,078
24, 48, 72 and 96-hour foreign currency sales [1]		(2,963)	-
Other funds available (due on demand)		8	8
Restricted cash:			
Call money with maturity term of less than four four days		11,068	700
Compensation fund to operate derivatives		895	838
Deposits with the Central Bank		8,911	8,908
24, 48, 72 and 96-hour foreign currency purchases		3,081	-
	$	**56,942**	**29,955**

[1] When the offset balance of the foreign currency to be delivered is greater than the foreign currency to be received, this balance is presented within the caption “Sundry creditors and other accounts payable”.

Total cash and cash equivalents at December 31, 2021, $45,196 and $11,746, ($20,836 and $9,119 at December 31, 2020), are denominated in national currency and valued foreign currency (mainly USD), respectively.

As of December 31, 2021 and 2020, deposits in the Central Bank correspond to monetary regulation deposits for $8,900, in both years, which have no defined maturity date, for what the Central Bank will inform in advance the date and the procedure for the withdrawal of the funds. The interest generated by deposits in the Central Bank at December 31, 2021 and 2020, were $11 and $8, respectively. The provisions in force issued by the Central Bank for the monetary regulation deposit, which may be comprised of cash, securities or both. At December 31, 2021 and 2020, the Bank keeps Reportable Monetary Regulation Bonds (BREMS-R) that amount to $3,093 and 3,092, respectively, which are part of the monetary regulation deposit (see note 8a).

At December 31, 2021 and 2020, the Bank had an asset (liability) balance for foreign currency purchase and sale transactions payable at a later date than the date agreed for $1,555 and $(1,670), and $1,351 and $(1,033) respectively, which were recognized in settlement accounts within “Other accounts receivable, net” and “Creditors on settlement of transactions”, as appropriate.

At December 31, 2021 and 2020, the Bank had the following “call money” with maturity terms minor or equal to four days are analyzed in the next page.

(Continued)

(Millions of Mexican pesos)

		2021				2020	
		Amount	**Annual rate**	**Term**	**Amount**	**Annual rate**	**Term**
HSBC México, S. A.	$	6,494	5.50%	3 días	-	-	-
Banco Nacional de Obras y Servicios Públicos, S. N. C.		-	-	-	$ 700	4.30%	4 days
Banorte		3,246	5.45%	3 días	-	-	-
Banco Nacional de México, S. A.		1,328	5.50%	3 días	-	-	-
	$	**11,068**			**$ 700**		

At December 31, 2021 and 2020, foreign currency receivable and deliverable equivalent in pesos in connection with the purchases and sales to be settled within 24, 48, 72 and 96 hours are as follows:

		Receivable in pesos [1]		**Deliverable in pesos** [1]	
		2021	**2020**	**2021**	**2020**
Dollar	$	3,058	1,239	(2,940)	(1,550)
Other currencies		23	12	(23)	(17)
	$	**3,081**	**1,251**	**(2,963)**	**(1,567)**

(1) When the offset balance of the foreign currency to be delivered is greater than the foreign currency to be received, this balance is presented within the caption "Sundry creditors and other accounts payable".

At December 31, 2021 and 2020, earnings from operations of buy/sell currencies amounted to $1,883 and $1,374, respectively, also, the valuation result amounts to $(349) and $(18), respectively, which are recorded under the caption "Financial intermediation income".

(7) Margin accounts-

At December 31, 2021 and 2020, the margin accounts are made up of cash guarantees for transactions with derivative financial instruments entered into in recognized markets for $488 and $2,730, respectively.

(Continued)

(Millions of Mexican pesos)

(8) Investment securities-

(a) At December 31, 2021 and 2020, the Bank's investment securities at fair value and held to maturity valued at amortized cost, are as follows:

		2021	**2020**
Trading securities:			
Debt securities:			
Government securities	$	60,027	56,128
Banking debt		922	-
Others debt securities		-	64
Equity shares		34	22
Total trading securities		60,983	56,214
Available-for-sale securities:			
Debt securities:			
Government securities		44,639	49,658
Bank promissory notes		16,168	14,233
Others		1,259	717
Total available-for-sale securities		62,066	64,608
Held-to-maturity securities:			
Special CETES		2,042	1,956
Bonds		3,093	3,092
Total held-to-maturity securities		5,135	5,048
Total investment securities	**$**	**128,184**	**125,870**

At December 31, 2021 and 2020, the fair value of the securities classified as trading, available-for-sale and held-to-maturity are analyzed in the following pages.

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		2021	2020
Trading securities:			
Government securities (restricted):			
Repurchase/resell agreements:			
LD BONDESD	$	33,304	24,847
IM BPAG		6,365	4,049
IS BPA		661	817
BI CETES		4,713	6,588
IQ BPAG		3,222	3,855
S UDIBONO		4,969	1,162
M BONOS		2,801	3,292
		56,035	44,610
Securities lending transactions:			
LD BONDESD		585	557
BI CETES		1,021	-
		1,606	557
Value date purchases:			
BI CETES		1,926	9,443
S UDIBONO		122	173
M BONOS		338	1,345
		2,386	10,961
Total government securities		60,027	56,128
Others securities (restricted) – Repurchases/resell agreements:			
91 FINBE		-	64
CEBUR		922	-
Equity shares (unrestricted):			
1 – AMX		-	4
1I - SHV		-	4
1 – KIMBER		5	2
1 – LIVEPOL		-	2
1 – CHDRAU		-	3
1 – AC - *		-	4
1 – NEMAK A		-	3
1 PE&OLES *		6	-
1 – BACHOCO		6	-
1I – EWZ		3	-
1 ALFA A		4	-
1E-FRES		2	-
1I OIH*		3	-
1- FEMSA-UBD		5	-
Total equity shares		34	22
Total trading securities	**$**	**60,983**	**56,214**

(Continued)

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		2021	2020
Available-for-sale securities:			
Debt securities:			
Domestic government securities (unrestricted):			
LD BONDESD	$	13,669	14,927
95 FEFA		402	2,991
M BONOS		7,753	3,922
S UDIBONOS		2,233	120
BI CETES		8,714	16,549
IS BPA 182		2,251	2,337
Domestic government securities (restricted):			
BI CETES		-	824
Total domestic government securities		35,022	41,670
Foreign government securities (unrestricted):			
D4 TBILW72		-	55
DI MEXC15		158	1,822
DI MEXA89		-	944
DI MEXJ98		-	1,351
DI MEXG29		-	2,558
DI MEXE02		-	911
DI MEX052		98	103
DI TBILY48		-	100
D4 TBIL386		5,116	-
D4 TBIL895		185	-
Foreign government securities (restricted):			
D4 TBIL895		60	-
D4 TBILW72		-	144
Total foreign government securities		5,617	7,988
Restricted securities:			
Under repurchase/resell agreements:			
LD BONDESD		3,000	-
BI CETES		1,000	-
		4,000	-
Total government securities		44,639	49,658
Bank promissory notes:			
Own position:			
I BANSAN		11,925	11,817
CD BANOB 19		320	320
CD SHF 19-2		1,371	393
CD NAFR 220722		1,852	202
I BANOBRA		-	901
F SHF		700	600
Total bank promissory notes		16,168	14,233
Subtotal to next page	**$**	**60,807**	**63,891**

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		2021	2020
Subtotal of the previous page	$	60,807	63,891
Others:			
Own position:			
JI CABEI		501	201
91 GAP – 21		151	-
91 - ACBE - 21V		392	-
91 ENCAP		-	29
91 UNFIN		-	34
91 UNIRECB 19		15	105
91 DAIMLER 19-3		200	199
93 CHDRAUI		-	149
Total others		1,259	717
Total available-for-sale securities	**$**	**62,066**	**64,608**

Held-to-maturity securities:				
Government securities (special CETES)(1):				
CETES B4 270701	July 1, 2027	$	1,507	1,443
CETES B4 220804	August 4, 2022		3	3
CETES B4 220707	July 7, 2022		532	510
Total special CETES			2,042	1,956
BONOS XR BREMSR (note 6)			3,093	3,092
Total held-to-maturity securities		**$**	**5,135**	**5,048**

(1) Corresponds to special CETES held by the Bank derived from support programs for debtors of mortgage loans, signed on July 15 and 16, 2010 with the Federal Government.

At December 31, 2021 and 2020, BREMS-R amounts is part of monetary regulation deposit, thus these instruments may only be decreased as the monetary regulation deposit in cash increases.

As of December 31, 2021, the Bank held assets (liabilities) balance for transactions with securities settled on a date subsequent to the agreed-upon date for $4,875 y $(2,388); ($3,126 and $(10,894) as of December 31, 2020), which were recognized in settlement accounts within “Other accounts receivable, net” and “Creditors on settlement of transactions”, as appropriate.

The valuation result from available-for-sale securities as of December 31, 2021, recognized in other comprehensive income within stockholders’ equity amounted to $(780) less deferred income tax for $252; ($498 less deferred income tax for $(143) as of December 31, 2020). The valuation result from securities available for sale in hedge transactions at fair value recognized in income statement for the years ended December 31, 2021 and 2020, is $(18) and $41, respectively.

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(Millions of Mexican pesos)

At December 31, 2021 and 2020, the caption "Valuation adjustment from hedging of financial assets" in the consolidated general balance it is integrated by $ (4) and $(287), respectively.

For the years ended December 31, 2021 and 2020, the net gains from interest income, gains or losses from purchase and sale transactions, and valuation income from investments in securities are as follows:

		2021	2020
Trading	$	2,559	2,464
Available-for-sale		4,000	3,641
Held-to-maturity		223	277
	$	**6,782**	**6,382**

(b) At December 31, 2021 and 2020, the fair value of the securities classified as traded securities to be settled are analyzed as follows:

		2021	2020
Traded securities to be settled:			
Value date sales:			
Government securities:			
BI CETES	$	(2,632)	(1,869)
M BONOS		(2,056)	(1,252)
S UDIBONO		(187)	(72)
Traded securities to be settled, unrestricted securities	**$**	**(4,875)**	**(3,193)**

(c) Issuers over 5% of the Bank's net capital-

At December 31, 2021 and 2020 investment in non-governmental debt securities and exceeding 5% of the Bank's net capital are analyzed as follows:

Issuer	Serie	Number of securities	Annual average rate	Term		Amount
2021						
BANSAN	22025	11,949,979,952	5.39%	28	$	11,925
2020						
BANSAN	210225	11,838,087,745	4.14%	28	$	11,817

(Continued)

(Millions of Mexican pesos)

(9) Securities on repurchase/resell agreements and securities lending-

At December 31, 2021 and 2020, the "Debtors on repurchase/resell agreements" and "Creditors on repurchase/resell agreements" balances in which the Bank acts as repurchase or as repurchaser, are analyzed as shown on the follows:

Securities		Debtors on repurchase/resell agreements		Creditors on repurchase/resell agreements	
		2021	**2020**	**2021**	**2020**
IQ BPAG	$	1,571	407	(3,222)	(3,852)
IS BPA		615	683	(661)	(816)
M BONOS		-	3,294	(2,359)	(3,187)
BI CETES		504	10,446	(3,723)	(4,916)
LD BONDESD		3,419	9,547	(35,655)	(24,842)
CEDE		-	1,150	(922)	(64)
S UDIBONO		4,601	1,126	(4,968)	(1,161)
CBBN		225	-	-	-
IM BPAG		1,312	1,206	(6,136)	(4,053)
Debtors (creditors) on repurchase/resell agreements	**$**	**12,247**	**27,859**	**(57,646)**	**(42,891)**

At December 31, 2021 and 2020, the terms of resell/repurchase agreements are between 2 and 28 days, in both years, with annual weighted rates of 4% to 5%, acting as repurchase in 2021 (4% annual weighted in 2020) and 4% to 5% acting as repurchaser in 2021 (4% to 7% annual weighted in 2020).

During the years ended December 31, 2021 and 2020, premiums collected amounted to $1,187 and $962, respectively; premiums paid amounted to $2,551 and $2,518 respectively, and are included in the consolidated statements of income under the caption "Interest income" and "Interest expense", respectively (see note 23b).

At December 31, 2021 and 2020, the Bank did not deliver collaterals in repurchase/resell agreements.

At December 31, 2021 and 2021, the Bank kept a debit (credit) balance on repurchase/resell agreements to be settled at a subsequent date for $14 and ($7), respectively, ($4 and ($4) in 2020), which were recognized within the "Other accounts receivable, net" caption and "Creditors on settlement of transactions" caption, as it corresponds.

Securities lending-

At December 31, 2021, the Bank held securities lending transactions as borrower, in which securities subject to the transactions were received and transferred.

(Continued)

(Millions of Mexican pesos)

At December 31, 2021 and 2020, the fair value of restricted securities in securities lending transactions (see note 22) acting as borrowed, are analyzed as follows:

2021

Securities	Number of securities		Fair value
S UDIBONO 251204	1,616,000	$	1,244
S UDIBONO 281130	99,000		74
S UDIBONO 311127	130,000		90
S UDIBONO 461108	111,000		88
S UDIBONO 501103	77,000		61
		$	**1,557**

2020

Securities	Number of securities		Fair value
S UDIBONO 281130	352,000	$	270
S UDIBONO 351122	57,000		47
S UDIBONO 461108	260,000		206
		$	**523**

The terms of the securities lending transactions at December 31, 2021, acted as a borrower is 4 and 7 days (6 y 7 days in 2020) with a weighted annual rate of 0.42% in both years.

During the years ended December 31, 2021 and 2020, premiums paid amounted to $3 and $2, and are included in the consolidated statement of income under the caption “Interest expense”, respectively (see note 23b).

(Millions of Mexican pesos)

(10) Derivatives-

At December 31, 2021 and 2020, the fair value of derivative financial instruments for trading and hedging purposes, recognized under the caption "Derivatives", is analyzed as follows:

	2021		2020	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Trading purposes:				
Forwards	$ 2,235	2,065	2,167	2,055
Options	1,047	830	868	716
Swaps	15,791	16,129	16,955	17,295
	19,073	19,024	19,990	20,066
Hedging purposes:				
Fair value hedges	288	72	500	950
Cash flow hedges	4,446	3,864	3,506	5,282
	4,734	3,936	4,006	6,232
	$ 23,807	**22,960**	**23,996**	**26,298**

At December 31, 2021 and 2020, the net valuation result on financial assets and liabilities related to trading derivatives amounted to $(454) and $(73), respectively. These amounts include the impairment or (reversal) for credit risk in the counterparty for $(46) and $(37), respectively. Such results are part of a synthetic strategy, with non-derivative foreign exchange purchase and sale transactions, which gains (losses) from buy/sell transactions and valuation results at December 31, 2021 amounted to $1,883 and $(349), respectively ($1,374 and $(18), respectively in 2020) and are presented in "Financial intermediation income".

(Continued)

At December 31, 2021 and 2020, the Bank has transactions settled on a date subsequent to the traded date for $3 and $11, respectively, which were recognized in settlement accounts under the caption "Other accounts receivable, net".

The Bank may reduce or modify the market risk mainly through two activities: converting fixed to variable rate financial assets and floating-rate to fixed rate financial liabilities. Both transformations are achieved using interest rate swaps and foreign exchange swaps related to different rates of interest.

At December 31, 2021 and 2020, there is a cumulative ineffectiveness for hedging derivative operations for $(43) and $341, respectively.

The Bank uses derivative financial instruments with the purpose of properly dealing with interest rate and exchange rate risks inherent to loan, deposit and investment on securities and on repurchase/resell agreements, all of which are characteristic of commercial banking. The most widely used instruments are interest rate and currency swaps, whereby floating rate instruments are transformed into fixed rate instruments and vice versa or assets denominated in foreign currency are translated into domestic currency or vice versa. Derivatives may be used for hedging cash flows or the economic value of various Bank assets and liabilities. There are defined control policies for the designation and continuous follow up of the effectiveness of such hedges.

Quantitative information

a. Cash flow hedges

At the end of December 2021, there are 90 contracts (89 contracts in 2020) representing $32,975 ($30,425 in 2020) classified as cash flow hedges.

The profit (loss) for the years ended December 31, 2021 and 2020, due to the ineffectiveness of instruments used for cash-flow hedging purposes amounted to $16 and $(15), respectively. The effect of gain from valuation relating to the effective hedge portion at December 31, 2021, amounts to $2,303 less deferred income tax and esp for $(753). At December 31, 2020, the gain from valuation relating to the effective hedge portion was $(1,461) less deferred income tax for $404 which are presented in stockholders' equity. At December 31, 2021 and 2020, no impairment in hedging derivatives.

(Continued)

(Millions of Mexican pesos)

At December 31, 2021 and 2020, the profit (loss) of the cash flow hedging instruments that were reclassified from stockholders' equity to results for the year under the captions "Interest income" and "Interest expense" were for $543 and $(634), $226 and $284, respectively.

Type	Currency	Volume	Amount	Covered Position
2021				
Interest rates	Mexican pesos	90	$ 32,975	Liabilities

Type	Currency	Volume	Amount	Covered Position
2020				
Interest rates	Mexican pesos	89	$ 30,425	Liabilities

b. Fair value hedges

At December 31, 2021, there are 102 contracts (107 contracts in 2020) classified as fair value hedges for $25,371 ($23,354 in 2020).

At December 31, 2021 and 2020, the losses from valuation of the derivatives of fair value hedges were $(1,153) and $(672), respectively; while the result of valuation of the hedged item attributable to the hedged risk was $(874) and $408, respectively.

Type	Currency	Volume	Amount	Covered Position
2021				
Interest rates	Mexican pesos	63	$ 16,908	Asset
Interest rates	Dollar	38	8,370	Asset
Cross currency	Euros	1	93	Asset
Total		**102**	**$ 25,371**	

Type	Currency	Volume	Amount	Covered Position
2020				
Interest rates	Mexican pesos	66	$ 13,889	Asset
Interest rates	Dollar	31	6,780	Asset
Cross currency	Euros	1	97	Asset
Cross currency	Dollar	9	2,588	Asset
Total		**107**	**$ 23,354**	

(Continued)

c. Cash flow and / or fair value hedges canceled

During the months of March and May 2021, the Bank decided to revoke the designation of the fair value hedge with derivative financial instruments (Swaps CCS) that covered bonds classified as available for sale, for 110 million dollars (notional value) in both cases that matured. Additionally, the designation of the fair value hedge with derivative financial instruments (Swap IRS) in the amount of $800 (notional value) was also revoked, which were registered as negotiation and nine credits in the amount of $919 (credit value).

During the month of December 2020, the Bank decided to revoke the designation of the fair value hedge with derivative financial instruments (CCS) that covered Bonds listed as available for sale, for 30 million of dollars (notional value) in both cases that matured. Additionally also revoked the designation of the fair value hedge with derivative financial instruments (IRS) that covered a loan portfolio in the amount of $344 (notional value) in both cases, which were recorded as trading derivatives and seven loans portfolio in the amount of $114 (notional value) and of $112 (notional value) that matured.

d. Formal documentation of coverage

At the initial moment of the constitution of the fair value and cash flow hedges, the Bank completes an individual file that includes the following documentation:

- The Bank's strategy and objective regarding risk management, as well as the justification for carrying out the hedging operation.
- The specific risk or risks to be covered.
- Constitution of the hedge, where the derivatives contracted for the purpose of hedging and the item that originates the hedged risk are identified.
- Definition of the elements that make up the coverage and reference to the method of evaluating its effectiveness.
- Contracts for the hedged item and the hedging transaction, as well as confirmation of the hedge counterparty.
- Evidence of the periodic effectiveness of the hedge, both at the prospective level regarding the estimation of its future evolution and at the retrospective level regarding its behavior in the past. These tests are carried out at least at the end of each quarter, in accordance with the valuation methodology defined at the time of the constitution of the coverage file.

e. Embedded derivatives

The Bank uses embedded derivatives in order to adequately manage the interest rate, index and exchange rate risks inherent in structured bonds. The instruments used at December 31, 2021 net were for interest rate options for $214 (the instruments used at December 31, 2020 net were for interest rate options for $20, indices for $88 and exchange rates for $1).

(Continued)

(Millions of Mexican pesos)

f. Collateral received and delivered

As of December 31, 2021, and 2020, the guarantees and / or collaterals provided by derivative financial transactions, which are recorded in "Other accounts receivable" and correspondence to transactions carried out over the counter, are integrated as follows:

	Collateral type	**Delivered**	
		2021	**2020**
Other accounts receivable, net			
Foreign financial entities	Cash	819	5,091
Mexican financial entities	Cash	152	1,089
		971	6,180

Collaterals received for derivative financial operations carried out in unrecognized markets as of December 31, 2021 and 2020, are recorded in the caption of "Creditors on collateral received in cash" and shown follows:

	Collateral type	**Received**	
		2021	**2020**
Creditors on collateral received in cash			
Foreign financial entities	Cash	294	301
Mexican financial entities	Cash	234	168
Other entities	Cash	433	418
		961	887
Memorandum accounts (Note 22)			
Mexican financial entities	Government bonds	892	474

(Continued)

(Millions of Mexican pesos)

(11) Loan portfolio-

(a) Classification of loan portfolio by currency-

At December 31, 2021 and 2020, the classification of loans into current and past-due by currency (valued in local currency), is analyzed as follows:

		2021		2020	
		Current	**Past-due**	**Current**	**Past-due**
Assets					
Local currency:					
Business or commercial activity	$	146,648	6,604	143,678	4,551
Financial institutions		20,898	47	28,723	82
Government entities		16,023	-	9,011	-
Consumer loans		34,876	1,390	39,036	2,526
Medium and residential [(1)]		157,549	7,115	140,954	5,110
Social interest housing		5	13	7	18
Loan portfolio acquired from INFONAVIT		6,253	157	5,217	91
		382,252	15,326	366,626	12,378
Valued foreign currency					
Business or commercial activity		38,524	1,569	35,732	219
Financial institutions		-	-	155	-
Medium and residential		22	48	32	64
		38,546	1,617	35,919	283
	$	420,798	16,943	402,545	12,661
		437,741		**415,206**	
Memorandum accounts					
Loan commitments (see note 22a)		26,798		25,235	
		$ 464,539		**440,441**	

As of December 31, 2021 and 2020, the restricted balance of medium and residential portfolio is for $16,075 and $15,379, respectively (see note 16). As of December 31, 2021, the balance of the restricted commercial loan portfolio is $2,511, which was given as collateral for the loan that was granted to the Bank by the Central Bank.

(1) Includes $92 and $112 loans denominated in UDIS, in 2021 and 2020, respectively.

(Continued)

(Millions of Mexican pesos)

(b) Classification of loan portfolio by economic sector-

At December 31, 2021 and 2020, credit risk including loans, guarantees and loan commitments, classified by economic sector and the percentages of concentration are analyzed as follows:

	2021		2020	
	Amount	**%**	**Amount**	**%**
Agriculture, forestry and fishing	$ 8,922	2	8,530	2
Commerce and tourism	46,610	10	46,984	11
Construction and housing*	188,498	40	170,784	39
Manufacturing	63,293	14	56,863	13
Consumer loans	36,266	8	41,562	9
Community, social and personal services, mainly government entities	48,875	10	50,236	11
Financial, insurance and real estate services	64,892	14	61,718	14
Transportation, warehousing and communication	7,183	2	3,764	1
	$ 464,539	**100**	**440,441**	**100**

* Includes mortgage loan portfolio for $171,162 in 2021 and $151,493 in 2020.

(c) Additional loan portfolio information-

Annual weighted lending rates:

Annual weighted loan interest rates during 2021 and 2020, non-audited, were as follows:

	2021	**2020**
Commercial loans*	6.17%	6.97%
Personal loans	13.92%	15.63%
Credit cards**	30.04%	33.78%
Residential mortgages	9.95%	10.18%

* Includes commercial, financial and government entities loans.

(Continued)

(Millions of Mexican pesos)

Loans rediscounted with funding:

The Mexican Government has established certain funds for the promotion and development of specific areas of the agriculture, cattle-raising, industrial and tourism sectors, which are managed by the Central Bank, Nacional Financiera S. N. C. (NAFIN), Banco Nacional de Comercio Exterior (Bancomext) and Fideicomisos Instituidos en relación a Agricultura (FIRA) by rediscounting loans with funding. At December 31, 2021 and 2020, the amount of loans granted under these programs totaled $12,740 and $18,726, respectively, and the related liability is included in "Bank and other borrowings" (see note 16).

Restructured loans:

At December 31, 2021 and 2020, restructured and renewed loans are analyzed as follows:

	Current loans	Past-due loans	Total
2021			
Business or commercial activity	$ 20,086	3,919	24,005
Residential mortgages	5,901	1,244	7,145
Consumer loans	1,430	729	2,159
	$ 27,417	5,892	33,309
2020			
Business or commercial activity	$ 31,548	1,216	32,764
Residential mortgages	3,690	373	4,063
Consumer loans	696	902	1,598
	$ 35,934	2,490	38,425

During 2021 and 2020, the Bank carried out some modifications (exchange of better qualified guarantees, currency and partial payment dates) to the original terms of loans classified as commercial loans for $9,765 and $9,975, respectively, which were not considered restructures.

Current commercial loans restructured and renewed by the Bank during years ended December 31, 2021 and 2020, which continue being current, amount to $5,082 and $18,000, respectively; for mortgage portfolio were $2,607 and $592, respectively.

(Continued)

(Millions of Mexican pesos)

During the years 2021 and 2020, the Bank recorded restructuring from past-due commercial loans which remained as past-due for $629 and $391, respectively. During 2021, the Bank did make restructures from past-due mortgages loans for $799, (in 2020 the Bank did make restructures from past-due mortgages loans for $73).

The restructuring consumer loans current and past-due made by the Bank during 2021 amount to $430 and $459, respectively ($523 and $824, respectively, in 2020).

At December 31, 2021 and 2020 no interest capitalization was carried out.

Risk concentration:

At December 31, 2021, the Bank has 3 economic group debtors that exceeded 10% of its basic capital. The amount of funding to these groups is $26,181 and represents 46% of the basic capital at September 2021. At December 31, 2020, the Bank had 9 economic group debtors that exceed the limit of 10% of basic capital. The amount of financing to these groups is $105,092 and represents 204% of the basic capital as of September 2020. The total balance of the loans granted to the three largest borrowers as of December 31, 2021 and 2020, amounts to $26,181 and $23,437, respectively.

Loan portfolio acquired from INFONAVIT:

As of December 31, 2021 and 2020, the analysis of the loan portfolio, current and in extension, is presented below:

Type of loan	Current portfolio	Portfolio in extension (1)	Total
2021			
Acquired from INFONAVIT	$ 6,231	179	6,410
2020			
Acquired from INFONAVIT	$ 5,091	217	5,308

(1) Extension scheme, is the period of time during which an extension is granted to a mortgage loan to make loan payments of a result of having lost salary income.

On July 7, 2021, the first amending agreement for the expansion of the line for $1,000 is signed. INFONAVIT maintains the administration and collection and recovery corresponding to the loans assigned to the Bank and is obliged to carry out the necessary collection procedures for the recovery of the receivable’s loans.

(Continued)

(Millions of Mexican pesos)

During the years ended December 31, 2021 and 2020, the number of loans acquired from INFONAVIT were 3,333 and 1,762 loans, amounting $ 1,936 and $1,045, respectively.

As of December 31, 2021 and 2020, loans acquired from INFONAVIT of the past-due portfolio amount $157 and $91, respectively.

As of December 31, 2021 and 2020, mortgage loans granted under the program "Second mortgage loan" classified by category REA or ROA, are as follows:

	2021		2020	
Category	**Number of loans**	**Amount**	**Number of loans**	**Amount**
REA	1,204	$ 650	933	$ 511
ROA	9,619	5,581	7,881	4,580
		$ 6,231		$ 5,091

REA – Applies to the beneficiaries that lost their jobs and the payments are being made directly by the debtor.

ROA – Applies to the beneficiaries with formal employment and payments are made by the employer through payroll discounts.

Past-due loan portfolio:

An analysis of past-due loans at December 31, 2021 and 2020, from the date the loans were considered past-due, are summarized below:

		1 to 180 days	181 to 365 days	1 to 2 years	Over 2 years	Total
2021						
Commercial*	$	2,154	2,102	1,169	2,795	8,220
Consumer		1,354	33	-	3	1,390
Residential mortgages		2,698	1,416	1,947	1,272	7,333
	$	**6,206**	**3,551**	**3,116**	**4,070**	**16,943**

* Includes commercial loans, loans to financial institutions and government entities.

(Continued)

(Millions of Mexican pesos)

		1 to 180 days	181 to 365 days	1 to 2 years	Over 2 years	Total
2020						
Commercial*	$	638	1,071	1,052	2,091	4,852
Consumer		2,464	59	-	3	2,526
Residential mortgages		2,099	1,130	1,312	742	5,283
	$	**5,201**	**2,260**	**2,364**	**2,836**	**12,661**

* Includes commercial loans, loans to financial institutions and government entities.

The movement in the past-due loan portfolio for the years ended December 31, 2021 and 2020, is summarized below:

		2021	2020
Balance at beginning of the year	$	12,661	9,785
Settlements		(5,354)	(2,694)
Write-offs and write-downs		(4,696)	(4,860)
Net increase, for transfers from and to current loans		14,308	10,414
Foreign exchange fluctuation		24	16
Balance at the end of the year	**$**	**16,943**	**12,661**

The interest on the past-due loan portfolio not recognized in results of operations for the year ended December 31, 2021 amounted to $937 ($644 in 2020), which are recorded in memorandum accounts.

For the years ended December 31, 2021 and 2020, the Bank recorded write-offs from those past-due loans that had been fully reserved for $4,086 and $4,472, respectively. In both years there was no application of reserves to loans granted to related parties.

For the years ended December 31, 2021 and 2020, the Bank obtained recoveries from written-off loans for $483 and $424, respectively.

Additional guarantees

At December 31, 2021 and 2020, the Bank has no additional guarantees for the restructured loans.

Impaired loans:

At December 31, 2021, the balance of impaired commercial loans is $10,955 ($8,043 in 2020), from which $2,916 are recorded in current loans ($3,473 in 2020), and $8,039 are recorded in past-due loans ($4,570 in 2020).

(Continued)

Adjustment from valuation of financial asset hedging:

The fair value hedges of interest rate risk of a portion of a portfolio comprised of financial assets, could generate an adjustment to the carrying amount of the hedged item, the gain or loss is recorded in the consolidated income statement and is presented under valuation adjustments for hedging financial assets.

At December 31, 2021 and 2020, the adjustment to the carrying value of the loan portfolio from the gains recognized in results of operations for the year is presented under the caption “Valuation adjustment from hedging of financial assets" in the consolidated balance sheet for $(294) and $863, respectively.

(d) Purchase of commercial portfolio-

During the months of January and March 2021, the Bank entered into contracts for the acquisition of commercial portfolio at a discount with unrelated financial institutions, at the date of the purchases, the portfolio was classified as a current portfolio. The book value of the portfolio acquired in January 2021 was $874 while the book value of the portfolio acquired in March 2021 was $1,030. The amount paid for the transactions was $865 and $1,022, respectively. The purchase for the month of January 2021 generated a profit of $9, for which $5 was recorded in the consolidated income statement in the category of "Other income from the operation, net", and $4 in "Deferred loan and prepayments" that will be amortized as the collections of said acquired portfolio are made. The purchase made in March generated a profit of $8, which was recorded in the consolidated income statement under the caption of "Other income from the operation, net".

(e) Portfolio sales-

Sale of mortgage loans portfolio

On July 23, 2021, the Bank entered into an agreement for the onerous assignment of loan rights, litigation rights and foreclosed assets of two mortgage portfolios with an unrelated company. The loans of the first portfolio at the date of the assignment was classified as an overdue portfolio, the net carrying value of reserves at the date of the assignment was $168, the amount received for the transaction was $85, generating a loss of $83, which was recorded in the consolidated statement of income in the category of "Other income from the operation, net."

The second portfolio at the date of the assignment was classified as a punished portfolio, with a nominal value of $364; the amount received for the transaction was $69, generating a profit of $69, which was recorded in the consolidated income statement under the caption of "Allowance for loan losses".

On January 31, 2020, the Bank sold a fully-defaulted mortgage loans to a non-related party, the face value of such loan portfolio was $181, the income received and the book value gain of such loan portfolio was $38. The results of these transaction were recorded as recoveries in the statement of income within the caption “Allowance for loan losses”.

(Continued)

(Millions of Mexican pesos)

Sale of commercial loans portfolio

On June 15, 2020, the Bank entered into a contract for the onerous assignment of credit rights, litigious rights and commercial portfolio adjudicators with a non-related company, at the date of the assignment the portfolio was classified as past due portfolio and reserved to the 100%, the book value at the date of the assignment was $151. The amount received for the transaction was $28, generating a loss of $123, which was recorded in the consolidated income statement under the caption "Other operating income, net ".

(f) Allowance for loan losses-

As of December 31, 2021 and 2020, as a result from the application of the new allowance for loan losses methodology, the probability of default, loss given default and exposure at default by type of loan portfolio, obtained as weighted average (unaudited) from the exposure at default, are as follows:

Type of loan portfolio	Probability of default	Loss given default	Exposure at default
2021			
Commercial	5.64%	42.70%	$ 257,111
Residential mortgages	5.92%	19.16%	171,162
Personal loans	6.75%	71.86%	25,029
Revolving loans	9.19%	72.80%	28,466
2020			
Commercial	4.33%	43.51%	$ 247,386
Residential mortgages	5.37%	19.34%	151,493
Personal loans	9.21%	71.86%	28,202
Revolving loans	13.26%	73.18%	28,785

The parameters are weighted on the loans of each of the portfolios. Exposure at default shown for credit includes credit commitments.

(Continued)

Scotiabank Inverlat, S. A.,
Institución de Banca Múltiple, Grupo Financiero Scotiabank Inverlat
and subsidiaries

Notes to the consolidated financial statements

(Millions of Mexican pesos)

At December 31, 2021, the credit rated loan portfolio and the allowance for loan losses are analyzed as follows:

Risk grade	Commercial	Financial institutions	Government entities	Consumer	Residential mortgages	Total
A-1	$ 101,092	20,219	12,389	23,299	148,618	305,617
A-2	66,759	5,071	384	4,431	2,105	78,750
B-1	23,638	1,592	100	2,063	1,450	28,843
B-2	5,686	438	1,049	1,442	5,006	13,621
B-3	5,639	488	1,801	755	3,812	12,495
C-1	289	607	-	973	1,814	3,683
C-2	130	1,053	-	708	2,319	4,210
D	4,001	47	300	670	3,618	8,636
E	4,339	-	-	1,925	2,420	8,684
Total	**$ 211,573**	**29,515**	**16,023**	**36,266**	**171,162**	**464,539**

Risk grade	Commercial	Financial institutions	Government entities	Consumer	Residential mortgages	Total
A-1	$ 638	97	64	545	265	1,609
A-2	773	65	5	208	12	1,063
B-1	413	28	2	101	13	557
B-2	125	9	25	84	63	306
B-3	193	16	69	62	65	405
C-1	18	39	-	108	51	216
C-2	17	157	-	163	213	550
D	1,693	17	48	375	923	3,056
E	3,662	-	-	1,674	1,258	6,594
Subtotal	$ 7,532	428	213	3,320	2,863	14,356

Operational risk reserve	33
Reserves for accrued interest on past-due loans	363
Additional allowance reported to the Banking Commission:	
By COVID-19	1,938
From previous years	12
Total allowance for loan losses	**$ 16,702**

(Continued)

(Millions of Mexican pesos)

At December 31, 2020, the credit rated loan portfolio and the allowance for loan losses are analyzed as follows:

Risk grade	Commercial	Financial institutions	Government entities	Consumer	Residential mortgages	Total
A-1	$ 120,070	24,979	4,756	23,865	131,226	304,896
A-2	47,461	7,044	303	5,066	2,569	62,443
B-1	18,451	1,256	1,741	2,586	1,491	25,525
B-2	2,990	140	-	1,604	4,032	8,766
B-3	3,890	5,096	1,782	848	2,647	14,263
C-1	824	454	429	1,307	2,747	5,761
C-2	264	-	-	1,276	2,124	3,664
D	2,761	8	-	2,187	3,089	8,045
E	2,605	82	-	2,823	1,568	7,078
Total	**$ 199,316**	**39,059**	**9,011**	**41,562**	**151,493**	**440,441**

Risk grade	Commercial	Financial institutions	Government entities	Consumer	Residential mortgages	Total
A-1	$ 741	114	25	484	240	1,604
A-2	539	74	5	243	15	876
B-1	324	21	32	131	13	521
B-2	67	3	-	96	51	217
B-3	126	152	59	74	46	457
C-1	57	26	32	152	76	343
C-2	34	-	-	266	187	487
D	1,061	1	-	1,226	784	3,072
E	2,373	80	-	2,165	805	5,423
Subtotal	$ 5,322	471	153	4,837	2,217	13,000
Reserves for residential mortgages past-due loans						56
Operational risk reserve						31
Reserves for accrued interest on past-due loans						210
Additional allowance reported to the Banking Commission:						
By COVID-19						3,750
From previous years						16
Total allowance for loan losses						**$ 17,063**

(Continued)

(Millions of Mexican pesos)

The movement in the allowance for loan losses for the years ended December 31, 2021 and 2020 is summarized below:

		2021	2020
Balance at the beginning of the year	$	17,063	11,606
Provisions debited to results of operations [2]		4,564	10,588[1]
Applications, write-downs and others		(4,919)	(4,899)
Foreclosure		(42)	(240)
Exchange rate fluctuations		36	8
Balance at the end of the year	**$**	**16,702**	**17,063**

(1) As of December 31, 2020, the Bank recognized $3,750 for the constitution of additional estimates derived from the COVID-19 pandemic, which are included under the caption "allowance for loan losses" of the income statement, which were reported to the Banking Commission.
(2) Includes recoveries of $481 and $424, as of December 31, 2021 and 2020, respectively.

(g) *Constitution of additional reserves due to the SARS-COV2 virus (COVID-19) health emergency*

Considering the health emergency due to COVID-19 that is occurring not only in Mexico but also worldwide and that affects the economic and financial environment on May 29, 2020, the Bank sent a notice to the Banking Commission for the constitution of additional reserves. As of December 31, 2021 y 2020, the Bank has established additional reserves for $1,938 and $3,750 respectively, to cover incremental risks that are not currently provided for in the different loan portfolio rating methodologies.

The incremental risks are based on the impact on the country's macroeconomic and financial scenario, which in turn could impact the credit quality and payment capacity of borrowers from the Bank's different portfolios, that is, both consumer portfolios, as of the mortgage portfolio and commercial portfolio.

Therefore, the additional reserves were constituted without initial direct allocation for any portfolio, so they are generic reserves that will be applied according to the needs of each portfolio.

For the retail portfolio, reserves may be applied to customers with COVID-19 affectation that require provisions or in the application of write-downs and discounts.

The release may also be determined before a proven economic recovery; portfolio stabilization and better macroeconomic indicators for 2 continuous quarters.

All releases must have the approval of the Deputy General Director of Risks and the Vice Presidency of Retail Risks.

(Continued)

In the case of a commercial portfolio, additional reserves may be assigned during the subsequent quarterly portfolio ratings to borrowers that meet the following criteria:

i. Your rating is lowered under the criteria of the Banking Commission. Except if the cause of the decrease is due to expired the Credit Bureau, or change of methodology.

ii. Borrowers with a high and medium risk sector, according to the classification made internally for this additional reserve.

Methodological information

The measurement and monitoring of credit risk is based on an expected loss and unexpected loss model, the calculation of this is carried out in a specialized internal, robust tool for institutional use.

- The expected loss represents the amount that the Bank expects to lose during the next twelve months due to defaults given the characteristics of its portfolios. It is equal to the result of multiplying the exposure at default (ED), the probability of default (PD) and the loss given default (LGD) of the credit exposures.

- The unexpected loss is a measure of dispersion around the expected loss. It represents the economic capital necessary to keep the Bank solvent in the event of an adverse event of great magnitude that impacts the loan portfolios. Additionally, tests are carried out under extreme conditions to determine their impact on the expected and unexpected loss of the portfolio.

(h) Special Accounting Criteria for Natural Disaster Support Program-

On November 30, 2020, the Banking Commission issued special Accounting Criteria on a temporary basis applicable to credit institutions, due to the recent damage caused by natural phenomena in disaster areas applicable to consumer, housing and commercial loans, for the clients who have their domicile or the credits whose source of payments are in affected areas, declared by the Ministry of the Interior or by the Ministry of Security and Citizen Protection as a disaster area.

During the year ended December 31, 2021 and 2020, no support for natural disasters was presented.

(Continued)

(Millions of Mexican pesos)

(i) Adjustment to the risk parameter of probability of non-compliance and loss given default

On July 23, 2021, the DOF published the adjustment to the risk parameter of probability of default and loss given default is taken into account for the calculation of loans reserves to women. This adjustment was considered in the reserve calculations during the 2021 financial year.

(12) Foreclosed assets-

At December 31, 2021 and 2020, foreclosed assets are analyzed below:

		2021	2020
Premises	$	172	156
Furniture, securities and foreclosed rights		-	76
		172	232
Impairment allowance		(40)	(31)
	$	**132**	**201**

The movement of the allowance for impairment for the years ended December 31, 2021 and 2020 is analyzed below:

		2021	2020
Balance at the beginning of the year	$	(31)	(21)
Additional provisions due to aging debited to operations for the year		(16)	(12)
Credit to income on sale of foreclosed assets and others		7	2
	$	**(40)**	**(31)**

(Continued)

(Millions of Mexican pesos)

(13) Premises, furniture and equipment, net-

Premises, furniture and equipment and leasehold improvements at December 31, 2021 and 2020 are analyzed below:

		2021	2020	Annual depreciation rate
Land	$	486	466	-
Office premises		1,156	1,101	Various
Transportation equipment		51	4	25% y 33%
Computer equipment		2,038	1,475	Various
Computer equipment in financial lease		47	68	20%
Office furniture and equipment		1,556	1,549	10%
Leasehold improvements		3,877	3,345	Various
		9,211	8,008	
Accumulated depreciation		(4,932)	(4,628)	
	$	**4,279**	**3,380**	

Depreciation charged to results of operations for the years ended December 31, 2021 and 2020 amounted to $579 and $502, respectively.

For the years ended December 31, 2021 and 2020, there was not an effect from impairment of leasehold improvements.

During the years ended December 31, 2021 and 2020, the Bank had total write-offs for furniture and equipment of $431 and $117, canceling depreciation of $349 and $63, respectively.

According to assessment carried out by the Bank the residual value (except land) at December 31, 2021 and 2020, is minimum.

Real estate selling

During 2021 and 2020, the Bank carried out the sale of real estate, the total profit on sale of real estate amounted to $18 and $1, which was recorded under the caption "Other operating income, net" in the consolidated statement of income.

(Continued)

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(14) Permanent investments-

At December 31, 2021 and 2020, the Bank's permanent investments in equity, classified by activity, are analyzed below:

		2021	2020
Other banking related services	$	45	45
Derivatives market operation		7	6
	$	**52**	**51**

(15) Deposit funding-

At December 31, 2021 and 2020, the deposit funding caption, is analyzed as follows:

		2021			2020		
		Local currency	**Foreign currency**	**Total**	**Local currency**	**Foreign currency**	**Total**
Demand deposits:							
Non-interest bearing	$	89,676	11,944	101,620	79,365	10,865	90,230
Interest bearing		86,410	21,716	108,126	89,630	22,494	112,124
		176,086	33,660	209,746	168,995	33,359	202,354
Time deposits:							
General public		196,254	-	196,254	154,621	-	154,621
Money market:							
Certificates of deposit (Cedes)		4,303	-	4,303	14,027	996	15,023
Promissory notes		-	-	-	513	-	513
		4,303	-	4,303	14,540	996	15,536
Debt securities issued:							
Bank stock certificates		22,407	4,829	27,236	25,882	4,687	30,569
Bonk bonds		3,655	-	3,655	2,431	-	2,431
		26,062	4,829	30,891	28,313	4,687	33,000
Global account of deposits without movements		755	107	862	607	7	614
Total deposit funding	**$**	**403,460**	**38,596**	**442,056**	**367,076**	**39,049**	**406,125**

(Continued)

(Millions of Mexican pesos, except otherwise stated)

In accordance with the provision of article 61 of the Loan Institutions Law, as of December 31, 2021 and 2020, the three-year periods of inactivity of deposit accounts of certain clients were fulfilled, counted from their concentration in the account global deposit made up of 62,414 and 79,714 number of accounts respectively, with an individual amount or less than 300 UMAS in force in Mexico City, amounting to $44 and $55 respectively, and which were delivered to public charity, in accordance with the legal system of the afored mentioned article during 2021 and 2020.

The unaudited average weighted interest rates on deposit balances during the years ended December 31, 2021 and 2020, are as follows:

	2021		2020	
	Local currency	**Dollars**	**Local currency**	**Dollars**
Demand deposits	2.03%	0.04%	2.18%	0.27%
Time deposits:				
General public	4.13%	-	5.21%	-
Money market	4.70%	-	6.08%	0.64%

At December 31, 2021 and 2020, money market time deposits and debt securities issued among the public investors, are as follows:

(a) Money market time deposits-

Certificates of deposit (Cedes)

At December 31, 2021 and 2020, the Bank issued Cedes with par value of one hundred pesos for an amount of $4,303 and $14,027, respectively. As of December 31, 2021, no Cedes in dollars were issued (as of December 31, 2020, Cedes with a nominal value of 100 dollars were issued in the amount of $996).

December 31, 2021

Cedes-

Interest payment	Annual rate	Term in days	Amount	Accrued interest
28 days	TIIE 28+.08%	350	$ 800	1
28 days	TIIE 28+.08%	350	1,500	2
28 days	TIIE 28+.08%	364	1,000	-
28 days	TIIE 28+.08%	364	1,000	-
			4,300	3
Total Cedes			**$**	**4,303**

(Millions of Mexican pesos, except otherwise stated)

December 31, 2020

Cedes-

Interest payment	Annual rate	Term in days	Amount	Accrued interest
28 days	TIIE 28 + 0.06%	336	$2,000	-
28 days	TIIE 28 + 0.06%	336	1,000	2
28 days	TIIE 28 + 0.25%	364	730	2
28 days	TIIE 28 + 0.25%	350	500	1
28 days	TIIE 28 + 0.25%	350	1,500	2
28 days	TIIE 28 + 0.09%	350	1,000	-
28 days	TIIE 28 + 0.06%	364	500	1
28 days	TIIE 28 + 0.06%	336	2,435	-
28 days	TIIE 28 + 0.06%	364	500	1
28 days	TIIE 28 + 0.02%	224	1,000	1
28 days	TIIE 28 + 0.02%	224	1,000	-
28 days	TIIE 28 + 0.19%	196	500	1
28 days	TIIE 28 + 0.05%	168	50	-
28 days	TIIE 28 + 0.20%	196	500	1
28 days	TIIE 28 + 0.09%	336	800	-
			$14,015	12
Total cedes				**$14,027**

Cedes in dollars -

Underlying	Periods	Term in days		Amount
LIBOR 1MTH +0.50	28	180		996
Total cedes			**$**	**15,023**

Notes with yield payable at maturity-

As of December 31, 2021, no promissory notes with yield payable at maturity were issued. As of December 31, 2020, promissory notes with a taxable yield at maturity with an approximate nominal value of one Mexican peso each were issued, as shown below:

Issuance date	Number of securities	Term in days	Annual rate	Amount	Accrued interest
June 2020	524,873,333	364	4.94%	$ 500	13
Total					**$ 513**

b) Debt securities issued-

At December 31, 2021 and 2020, the Bank issued banking stock certificates with par value of one hundred Mexican pesos, under the program authorized by the Baking Commission for up to $25,000, as shown in the following page.

(Continued)

(Millions of Mexican pesos)

December 31, 2021

Issuance date	Number of securities	Term in years	Interest payment in days	Proportion	Interest rate	Amount	Accrued interest
April 2017	28,750,000	5	28	9%	TIIE 28 + 0.50%	$ 2,875	11
March 2018	34,500,000	4	28	9%	TIIE 28 + 0.24%	3,450	7
March 2018	28,750,000	4	28	9%	TIIE 28 + 0.24%	2,875	6
May 2019	36,529,437	4	28	9%	TIIE 28 + 0.18%	3,653	14
May 2019	23,575,595	3	28	9%	TIIE 28 + 0.18%	2,354	9
December 2019	60,000,000	3	30	9%	TIIE 28 + 0.15%	6,000	-
June 2013*	11,500,000	10	182	9%	7.30%	1,150	3
						22,357	50
Subtotal banking stock certificates						$	22,407

Cebur in dollars-

Issuance date	Number of securities	Term in years	Interest payment in days	Proportion	Interest rate	Amount	Accrued interest
May 2019	1,234,500	3	90	0.72%	LIBOR-3M+0.57%	$ 2,533	2
July 2019	1,117,750	3	90	0.72%	LIBOR-3M+0.57%	2,292	2
						4,825	4
Subtotal banking stock certificates in dollars							4,829
Total banking stock certificates						$	27,236

* Issued under the prior years' program authorized by the Banking Commission.

(Continued)

(Millions of Mexican pesos)

Banking stock certificates

December 31, 2020

Issuance date	Number of securities	Term in years	Interest payment in days	Proportion	Interest rate	Amount	Accrued interest
April 2017	28,750,000	5	28	8%	TIIE 28 + 0.50%	$ 2,875	$9
August 2017	34,500,000	4	30	8%	TIIE 28 + 0.36%	3,450	13
March 2018	34,500,000	4	28	8%	TIIE 28 + 0.24%	3,450	6
March 2018	28,750,000	4	28	8%	TIIE 28 + 0.24%	2,875	5
May 2019	36,529,437	4	28	8%	TIIE 28 + 0.18%	3,653	11
May 2019	23,575,595	3	28	8%	TIIE 28 + 0.18%	2,354	7
December 2019	60,000,000	3	30	8%	TIIE 28 + 0.15%	6,000	21
June 2013*	11,500,000	10	182	7%	7.30%	1,150	3
						$ 25,807	75
Subtotal banking stock certificates							$25,882

Cebur in dollars-

Issuance date	Number of securities	Term in years	Interest payment in days	Proportion	Interest rate	Amount	Accrued interest
May 2019	1,234,500	3	90	3%	LIBOR-3M+0.57%	$ 2,458	2
July 2019	1,123,915	3	90	3%	LIBOR-3M+0.57%	2,225	2
						$ 4,683	4
Subtotal banking stock certificates in dollars							$ 4,687
Total banking stock certificates							**$ 30,569**

* Issued under the prior years' program authorized by the Banking Commission.

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Structured banking bonds

December 31, 2021

Issuance date	Number of securities	Term in days	Underlying		Amount	Accrued interest
November 2019	658,200	1,096	MSFDVTHY	$	66	-
February 2020	1,930,500	1,094	MSFDVTIG		193	-
March 2020	6,481,910	1,095	MSFDVTIG		648	-
May 2020	7,898,100	1,093	SPXSRT5E Index		790	-
June 2020	415,850	1,093	SPXSRT5E Index		42	-
March 2021	238,845	540	XLE		24	-
March 2021	212,845	540	XLF		21	-
March 2021	1,845,220	540	XLE		184	-
April 2021	4,946,500	1,093	IDBTVER		495	-
June 2021	572,300	1,093	IDBTVER		57	-
August 2021	1,526,000	358	MSFDVTHY		152	-
August 2021	809,300	728	IDBTVER		81	-
November 2021	3,848,100	1,093	BNPIUIL5		385	-
December 2021	1,105,530	541	EZU		111	-
March 2021	120,000	1,080	FXI		10	-
November 2021	3,950,200	1,093	BNPIUIL5		395	1
				$	3,654	1
Total structured banking bonds					**$**	**3,655**

December 31, 2020

Issuance date	Number of securities	Term in days	Underlying		Amount	Accrued interest
December 2020	633,800	364	USD/MXN	$	63	-
April 2019	716,915	729	NKY		72	6
May 2019	980,100	730	SPTSX60		98	-
June 2019	238,250	730	SPTSX60		24	-
July 2019	1,403,500	728	TIIE28		140	-
September 2019	344,200	547	IPC		34	-
November 2019	529,100	731	MSFDVTHY		53	-
November 2019	663,200	1,096	MSFDVTHY		66	-
January 2020	949,800	359	SPX		95	-
January 2020	870,100	359	USD/MXN		87	-
February 2020	100,000	358	SPX		10	-
February 2020	1,930,500	1,094	MSFDVTIG		193	-
March 2020	6,515,910	1,095	MSFDVTIG		652	-
May 2020	7,956,100	1,093	SPXSRT5E Index		796	-
June 2020	415,850	1,093	SPXSRT5E Index		42	-
				$	2,425	6
Total structured banking bonds					**$**	**2,431**

(Continued)

(Millions of Mexican pesos)

c) Valuation adjustments of hedging financial liabilities-

The fair value hedges of interest rate risk of a portion of a portfolio comprised of financial liabilities, could generate an adjustment to the carrying amount of the hedged item, the gain or loss is recorded in the consolidated income statement and is presented under valuation adjustments for hedging financial liabilities.

At December 31, 2021 and 2020, the loss recognized in results of operations for the year is presented under the caption "Valuation adjustment from hedging of financial liabilities" in the consolidated balance sheet for $8 and $13, respectively.

(16) Bank and other borrowings-

At December 31, 2021 and 2020, bank and other borrowings are compromised as follows:

		2021	2020
Short-term:			
Local currency:			
Central Bank loans	$	200	100
Development agencies (1)		4,370	10,724
Development banks (2)		5,231	6,052
Other organizations		-	4,728
Accrued interest		110	114
		9,911	21,718
Dollars translated into local currency			
Multiple banking		7,178	10,964
Development agencies (1)		189	434
Development banks		48	18
Accrued interest		10	12
		7,425	11,428
Total short term and due on demand, to next page	**$**	**17,336**	**33,146**

(1) Resources from development funds (see note 11c).
(2) See on the next page.

(Continued)

(Millions of Mexican pesos)

		2021	2020
Total short term and due on demand, from previous page	$	17,336	33,146
Long-term:			
Local currency:			
Central Bank Loans		1,100	-
Development agencies [(1)]		6,567	6,071
Development banks [(2)]		21,000	25,000
Accrued interest		45	-
		28,712	31,071
Dollars valued into local currency:			
Development agencies [(1)]		308	404
Other organizations		2,051	1,991
Total long-term		31,071	33,466
Total bank and other borrowings	**$**	**48,407**	**66,612**

[(1)] Resources from development funds (see note 11c).

[(2)] At December 31, 2021, the Bank obtained 5 loans with NAFIN for a total amount of $12,500 with a 2-year maturity and interest rates of 6%. As of December 31, 2021, the Bank obtained 5 loans with Sociedad Hipotecaria Federal, S. N.C. (SHF) for a total amount of $8,500 with a maturity between 2 and 6 years and interest rates between 5% and 9%. As of December 31, 2020, the Bank obtained 6 loans with NAFIN for a total amount of $14,000 with a maturity between 4 and 5 years and interest rates of 5%. As of December 31, 2020, the Bank obtained 6 loans with Sociedad Hipotecaria Federal, S. N.C. (SHF), for a total amount of $11,000 with a maturity between 2 and 10 years and interest rates of 5%.

At December 31, 2021 and 2020, long-term bank and other borrowings maturity dates are as follows:

		2021	2020
Maturity			
2022	$	-	4,844
2023		10,971	10,190
2024		13,367	13,925
2025		3,160	3,506
2026		2,312	-
Over 5 years		1,261	1,001
	$	**31,071**	**33,466**

(Continued)

(Millions of Mexican pesos)

Banking borrowings that the Bank maintains, relate mainly to access to funds via auctions, loans regulated by the Central Bank with no pre-established limit, loans subject to availability of funds of the lenders' budget with no limit to the Bank and loans whose limit is agreed to daily by the lender. At December 31, 2021 and 2020, the Bank has no significant interbank lines of credit with authorized amounts that have not been drawn down.

On January 19, 2021, the Bank signed a simple loan opening agreement secured with eligible trust assets in collateral with the Central Bank for $1,100, at an average rate of the interbank rate and a term of 720 days.

The average weighted, unaudited rates of interbank and other agency loans for the years 2021 and 2020 are shown as follows:

	2021 annual rates		**2020 annual rates**	
	Local currency	**Foreign currency**	**Local currency**	**Foreign currency**
Domestic banks	-	0.28%	-	0.41%
Development banks	6.13%	1.10%	5.88%	2.43%
Development agencies	5.44%	0.64%	4.71%	1.00%
Central bank	4.87%	-	4.55%	-
Other Organisms	-	0.83%	4.83%	1.03%

(17) Employees' benefits-

The Bank only keeps a defined benefits plan for pensions of retired personnel, as well as obligations related to post-retirement medical plans, food coupons and life insurance of retirees.

The defined contribution plan for pensions was maintained as eligible employees considering all those employees who entered to work on or after April 1, 2006 and seniority in the plan greater than 6 months, being optional for employees who entered previously. This plan establishes pre-established contributions for the Bank and employees, which can be withdrawn in full by the employee when he has reached 55 years of age.

For the year ended December 31, 2021 and 2020, the income tax corresponding to the Bank's contributions to the defined contribution plan amounted to $139 and $142, respectively, under the caption Administrative Expenses in the income statement.

In addition, the Bank maintains a defined benefit plan for pensions for pensions and post-retirement benefits, which is entitled to all employees who reach 60 years of age with 5 years of service or 55 years of age with 35 years of service, as established by the collective bargaining agreement and to which they do not contribute.

The cost, obligations, and fund assets of defined benefit pension plans, seniority premium, post-retirement medical benefits, life insurance, and retiree pantry vouchers were determined based on calculations prepared by independent actuaries as of December 31, 2021 and 2020.

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Merge

As of July 1, 2021, the Bank entered into a merge with SECOSA, in which the Bank assumes all labor obligations for all active employees that SECOSA held until June 30, 2021.

The defined cost-benefit components, from the years ended December 31, 2021 and 2020, are shown as follow:

		Seniority bonus	Statutory compensation	Pension plan		Other post-retirement benefits	
		2021	2021	2021	2020	2021	2020
Current service labor cost	$	7	13	11	-	38	-
Net interest on the DBNL or (DBNA*)		3	15	171	138	126	83
Recycling of remeasurements of DBNL recognized in OCI		7	(3)	43	30	46	22
Labor cost for improvements to the plan		77	-	-	-	-	-
Cost for early settlement of obligations		20	123	-	-	-	-
Adjustment for transferred liability		(2)	(3)	-	-	(3)	-
Net cost of the period		**112**	**145**	**225**	**168**	**207**	**105**
Initial balance of remeasurements of the DBNL (DBNA)		-	-	579	515	580	391
Remeasurements generated in the year		88	(30)	(262)	81	(728)	211
Recognition of GPA in OCI		-	-	-	13	-	-
Balance transferred from SECOSA		23	6	294	-	357	-
Recycling of remeasurements recognized in OCI of the year		(7)	3	(43)	(30)	(46)	(22)
Final balance of remeasurements of DBNL(1)		**104**	**(21)**	**568**	**579**	**163**	**580**
Increase in remeasurements of DBNL in OCI		81	(27)	(305)	64	(775)	189
Initial balance of the DBNL (DBNA)		-	-	(1,770)	(1,549)	(1,236)	(948)
Recognition of initial reserve by merger		(92)	(449)	(523)	-	(568)	-
Liabilities/assets transferred to July 1, 2021		1	3	-	-	11	-
Adjustment for transferred liability		(13)	31	(36)	-	(64)	-
Recognition of improvements to the plan in retained earnings (graduality)		-	-	-	11	-	6
Cost (income) of defined benefits		(111)	(145)	(225)	(168)	(208)	(105)
Reservation Payments		-	176	-	-	-	-
Contribution to the fund		-	-	(72)	-	-	-
(Gains) / losses recognized in OCI		(81)	27	305	(64)	775	(189)
Final balance of the DBNL	**$**	**(296)**	**(357)**	**(2,321)**	**(1,770)**	**(1,290)**	**(1,236)**

(1) See on the next page

(Continued)

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* Defined benefits net liability (DBNL) Defined benefits net asset (DBNA).

(1) The final balance of DBNL remeasurements includes the balance of OCI generated by SECOSA as of July 1, 2021, which corresponds to the amount of $713 (which is part of the premium item on the sale of shares), and $100 corresponding to the OCI generated by the Bank as of December 31, 2021.

The reconciliation of the financial position of the obligation and net projected asset (liability) as of December 31, 2021 and 2020 is as follows:

		Seniority bonus	Statutory compensation	Pension plan		Other post-retirement benefits	
		2021	**2021**	**2021**	**2020**	**2021**	**2020**
Amount of defined benefit obligations (DBO)	$	(316)	(357)	(2,387)	(2,006)	(3,513)	(2,175)
Plan assets		20	-	66	236	2,223	939
Financial situation of the obligation		(296)	(357)	(2,321)	(1,770)	(1,290)	(1,236)
Projected net liability	**$**	**(296)**	**(357)**	**(2,321)**	**(1,770)**	**(1,290)**	**(1,236)**

At December 31, 2021 and 2020, the remeasurements of defined employee benefits recorded in the OCI are analyzed as follows:

		2021	2020
Beginning balance of remeasurements	$	1,159	906
Effect of the Merge [2]		(33)	
Remeasurements gradually recorded			13
Reclassification of remeasurements recognized in OCI in the year		(93)	(52)
Remeasurements generated in the year		(933)	292
Final balance of remeasurements		100	1,159
Deferred IT [1]		27	(139)
Effect in equity, net of deferred IT	**$**	**127**	**1,020**

(1) Calculated based on the Tax Provisions of deductibility for salaries and wages to the employees.

(2) Effect of the merge with SECOSA as of July 1, 2021

(Continued)

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Below is an analysis of the movements of plan assets to cover labor obligations, for the years ended December 31, 2021 and 2020:

		2021	2020
Fair value of the assets at beginning of year	$	1,175	1,521
Merger Income as of July 1, 2021		1,694	-
Return on plan assets		189	54
Transfer to defined contribution fund		(72)	-
Payments charged to the fund during the year		(677)	(400)
Fair value of the assets at end of year	**$**	**2,309**	**1,175**

The annual nominal rates as of December 31, 2021 and 2020 used in actuarial projections are as follows:

	2021	2020
Return on plan assets	9.70%	8.30%
Discount rate	9.70%	8.30%
Salary increase	4.50%	4.50%
Increase in medical expenses	6.50%	6.50%
Estimated inflation	3.50%	3.50%

The expected return rate on the plan assets is the same to the discount rate in accordance with current standards.

The plan assets covering the pension and other post-retirement benefits for retirees consist of 55% debt instruments and 45% equity instruments subject to trusts and managed by a Bank-designated Committee.

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The effect from an increase or decrease by a percentage point in the rate of increase in medical expenses used for the actuarial projections at December 31, 2021 and 2020, are shown below:

	2021		**2020**	
	Annual rates	**DBO medical expense retirees**	**Annual rates**	**DBO medical expense retirees**
With no modification	6.50%	2,919	6.50%	1,701
1% increase in medical inflation rate	7.50%	3,255	7.50%	1,883
1% decrease in medical inflation rate	5.50%	2,638	5.50%	1,545

As of December 31, 2021 and 2020, the amortization periods in years for unrecognized items related to defined pension and other post-retirement benefits are as follows:

	Pensions Retirement	**Other post-retirement benefits**
2021		
Prior service plan modifications	17.01	17.51
2020		
Prior service plan modifications	1	1
Net actuarial loss/(gain) and reclassification of remeasurements (P)/ANBD to be recognized in ORI	17.51	17.51

The components of the stress-analysis in pesos as of December 31, 2021 and 2020, are shown in the next page.

(Continued)

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		Seniority bonus	Statutory compensation	Pension plan		Other post-retirement benefits	
		2021	2021	2021	2020	2021	2020
Defined benefit obligation (DBO) as of December 31	$	315	356	2,388	2,006	3,513	2,175
Significant actuarial assumptions as of December 31 Sensitivity analysis Discount rate 10.20% (+0.50%)		(8)	(5)	(87)	(73)	(193)	(106)
Discount rate 9.20% (-0.50%)		8	5	97	78	213	115
Long-term inflation rate 3.75% (+0.25%)		2	-	18	21	14	7
Long-term inflation rate 3.25% (-0.25%)		(2)	-	(15)	(18)	(13)	(6)

(18) Income taxes (IT) and Employee statutory profit sharing (ESPS)-

IT Law effective as of January 1, 2014 establishes an IT rate of 30% for 2014 and later years.

As of December 31, 2021 and 2020, the expense (benefit) for IT and ESPS caused and deferred, are integrated as follows:

		2021		2020	
		IT	ESPS	IT	ESPS
In the results of the period:					
Caused	$	1,487	510	2,676	-
Cancellation of provision from previous years, net		-	-	(64)	-
Excess / (Insufficiency) of the provision for the year		50	-	-	-
Real estate		61	4	16	
Derivatives market entities		40	(1)	49	-
Caused		1,638	513	2,677	-
Deferred		819	(1,947)	(1,696)	
	$	**2,457**	**(1,434)**	**981**	

The Bank does not consolidate income tax results with its subsidiaries, thus the information presented below is for informational purposes only.

The Bank has not recognized a deferred tax liability on the undistributed earnings of its subsidiaries and associated companies, the Bank currently does not expect that these undistributed earnings be reinvested and be taxable in the near future.

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IT and ESPS deferred:

The deferred IT and ESPS asset as of December 31, 2021 and 2020, is made up of the following items:

		IT		ESPS
		2021	**2020**	**2021**
Valuation of financial instruments:				
Trading securities	$	37	204	12
Available-for-sale securities		55	(179)	18
Cash flow hedge swaps		(194)	496	(63)
Expense accruals and others		(712)	(716)	(240)
Remaining balance to be deducted of premises, furniture and equipment		363	304	141
Unearned fees collected		594	663	177
Pension plan		422	339	136
Remeasurements of defined employee benefits		(30)	139	(11)
Other assets		-	(26)	-
Foreclosed assets		332	319	108
Future loan write-offs		5,011	5,119	1,622
Deferred IT for deferred ESPS		(633)	-	-
		5,245	**6,662**	**1,900**
SECOSA Merger Effects [1]		664	-	210
	$	**5,909**	**6,662**	**2,110**

The favorable effect in consolidated income statement and stockholders' equity, for the years ended December 31, 2021 and 2020 are presented as follows:

		IT		ESPS
		2021	**2020**	**2021**
Valuation of financial instruments:				
Trading securities	$	(167)	124	12
Available-for-sale securities		234	(143)	18
Cash flow hedge swaps		(690)	404	(63)
Expense accruals and others		2	(63)	(240)
Remaining balance to be deducted of premises, furniture and equipment		59	47	141
Unearned fees collected		(42)	(47)	177
Pension plan		83	43	136
Remeasurements of defined employee benefits		(169)	44	(11)
Other assets		-	40	-
Foreclosed assets		13	28	108
Future loan write-offs		(108)	1,524	1,622
IT recognized in other expenses		(23)	-	-
IT deferred by ESPS deferred in results		(633)	-	-
	$	**(1,441)**	**2,001**	**1,900**

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The above movements are reflected in the consolidated financial statements as follows:

		IT		ESPS
		2021	**2020**	**2021**
In results:	$	(819)	1,696	1,947
In stockholders' equity:				
Results from the valuation in available-for-sale securities		234	(143)	18
Remeasurement of defined employee benefits		(166)	44	(10)
Valuation of cash flow hedging instruments		(690)	404	(63)
Allowance for loan losses		-	-	8
	$	**(1,441)**	**2,001**	**1,900**

The following is an analysis, for information purposes, of the effective tax rate of the Bank without subsidiaries for the fiscal years ended at December 31, 2021 and 2020:

		Tax base	IT Tax at 30%	Effective rate
December 31, 2021				
Operating income	$	11,876	(3,563)	(30%)
Current tax allocation:				
Adjustment for effects of inflation, net		(4,135)	1,240	10%
Valuation of financial instruments		(55)	17	-
Depreciation and amortization		144	(44)	-
Non-deductibles expenses		572	(172)	(1%)
Allowance for loan losses		4,566	(1,370)	(12%)
Deductible loan write-offs		(4,963)	1,489	13%
ESPS caused and deferred from exercise		(1,438)	432	4%
ESPS deduction paid		(484)	145	1%
Commission fees and advance payments		(675)	203	2%
Financial instruments gain (loss)		(532)	160	1%
Other, net		418	(125)	(1%)
Tax profit		5,294	(1,588)	(13%)
Deferred tax allocation:				
Valuation of financial instruments		55	(17)	
Expense accruals and other		496	(150)	(1%)
Remaining balance to be deducted of premises, furniture and equipment		(198)	60	
Pension plan		(274)	83	
Foreclosed assets		(45)	14	
Fees collected in advance		140	(42)	-
Future loan write-offs		361	(108)	(1%)
IT recognized in other expenses		76	(23)	-
Deferred IT by ESPS deferred in results		2,121	(636)	(5%)
Deferred tax		2,732	(819)	(7%)
Income tax	**$**	**8,026**	**(2,407)**	**(20%)**

(Continued)

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		Tax base	IT Tax at 30%	Effective rate
December 31, 2020				
Operating income	$	3,678	(1,103)	(30%)
Current tax allocation:				
Adjustment for effects of inflation, net		(1,549)	465	13%
Valuation of financial instruments		193	(58)	(2%)
Depreciation and amortization		29	(9)	-
Non-deductibles expenses		274	(82)	(2%)
Allowance for loan losses		10,587	(3,176)	(86%)
Deductible loan write-offs		(5,449)	1,635	44%
Commission fees and advance payments		196	(59)	(2%)
Financial instruments gain (loss)		226	(68)	(2%)
Other, net		736	(221)	(6%)
Tax profit		8,921	(2,676)	(73%)
Deferred tax allocation:				
Valuation of financial instruments		(171)	51	1%
Expense accruals and other		(101)	31	1%
Remaining balance to be deducted of premises, furniture and equipment		(106)	32	1%
Pension plan		(146)	43	1%
Foreclosed assets		(91)	27	1%
Fees collected in advance		(35)	11	-
Future loan write-offs		(5,078)	1,524	41%
Deferred tax		(5,728)	1,719	46%
Income tax	**$**	**3,193**	**(957)**	**(27%)**

(Continued)

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		ESPS base	ESPS at 10%	Effective rate
December 31, 2021				
Operating income	$	11,876	(1,187)	(10%)
Current tax allocation:				
Adjustment for effects of inflation, net		(4,135)	414	4%
Valuation of financial instruments		(55)	5	-
Depreciation and amortization		144	(14)	-
Non-deductibles expenses		465	(47)	-
Allowance for loan losses		4,566	(456)	(4%)
Deductible loan write-offs		(4,963)	496	4%
ESPS accrued and deferred for the year		(1,438)	144	1%
Commission fees and advance payments		(675)	67	-
Financial instruments gain (loss)		(532)	53	-
Other, net		420	(42)	-
Tax profit	$	5,673	(567)	(5%)

To carry out the determination of the ESPS caused, derived from the labor reform, it must be given compliance with the provisions of the Federal Labor Law (FLL) and the IT Law. Therefore, the following should be considered:

a) The Bank must apply 10% to the base tax profit of the ESPS, based on the provisions of the IT Law.
b) The amount determined in the previous paragraph must be assigned to each employee based on the provisions of the FLL, however, the amount assigned to each employee may not exceed the greater of the following amounts: the equivalent of three months of the employee's current salary or the average ESPS received by the employee in the previous three years.
c) If the ESPS determined in subparagraph (a) is greater than the sum of the ESPS allocated to each and every employee according to subparagraph (b), the latter must be considered the ESPS caused for the period. Based on the FLL, it is considered that the difference between the two amounts does not generate an obligation to pay either in the current or future periods.
d) If the ESPS determined in subparagraph (a) is less than or equal to that determined in subparagraph (b), the ESPS of subparagraph a must be the ESPS caused by the period.

According to technical report 53, to determine the rate of the ESPS caused, the ESPS caused (FLL) must be divided by the ESPS determined at 10% of the tax profit; the quotient obtained must be multiplied by the legal ESPS rate of 10%, in order to obtain the ESPS caused.

2021		
ESPS assigned to workers based on law limits	$	522
ESPS 10%		567
Quotient		0.9206
ESPS statutory rate		10%
ESPS rate current		9.21%

(Continued)

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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 of 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 may examine transactions carried out during the five years prior to the most recent income tax return filed.

According to the IT Law, corporations carrying out transactions with related parties, whether domestic or foreign, are subject to a limits and tax obligations, to certain requirements as to the determination of the transaction prices, since these prices must be similar to those that would be used in arm's-length transactions.

(19) Subordinated debt issued-

At December 31, 2021 and 2020, the Bank has issued the following private subordinated debt which are not convertible into shares:

Issuance date	Number of securities		Price per security in pesos	Term in years	Interest term in days	Interest rate		Total amount of issuance
2021								
June-29,2018	33,600,000	$	100	15	182	12.30%	$	3,360
Sep-11, 2018	34,550,000		100	Perpetual	182	11.32%		3,455
Dec-18, 2014	20,930,000		100	10	182	7.40%		2,093
								8,908
Accrued interest payable								146
							$	**9,054**
2020								
June-29, 2018	33,600,000	$	100	15	182	12.30%	$	3,360
Sep-11, 2018	34,550,000		100	Perpetual	182	11.32%		3,455
Dec-18, 2014	20,930,000		100	10	182	7.40%		2,093
								8,908
Accrued interest payable								144
							$	**9,052**

(Continued)

(20) Stockholders' equity-

(a) Structure of capital stock-

Capital stock at December 31, 2021 and 2020, the Stockholders' equity is comprised of 9,207,023,304 common shares, with a par value of one peso per share, divided into two series: 9,207,023,220 shares "F" series shares and 84 "B" series shares for both years.

(b) Capital increase-

On June 30, 2021, through an extraordinary meeting of shareholders, it was approved as a result of the merger to carry out an increase in the share capital of the Bank in the amount of 53,523,304 shares corresponding to the "F" series with a nominal value of one Mexican peso each, and the remainder of SECOSA's book capital that exceeds the nominal values of the shares that will be issued, I mean the amount of $644, was recognized in an item called premium in share issuance, and that with respect to this item, the shareholders of SECOSA will not have preferential right, since all the shareholders of the Bank, participate in that amount in proportion to their respective percentages of participation.

(c) Dividends declared-

The dividends paid to individuals and corporations resident abroad shall be subject to an additional tax of 10%, which is considered final and must be withheld by the entities that distribute such dividends. The rule solely applies to dividends payment from earnings generated beginning January 1, 2014.

For the years ended December 31, 2021 and 2020, there was no dividends decree or payed.

(d) Comprehensive income-

The comprehensive income reported in the consolidated statement of changes in stockholders' equity represents the results of the total performance of the Bank and subsidiaries during the year, and includes the net income, the effects (net of income taxes and deferred esp) of the valuation of available-for-sale securities and cash flow hedge transactions, as well as the remeasurements of defined employee benefits.

(Continued)

(e) Restrictions on stockholders' equity-

No individual or entity may acquire direct or indirect control of Series "B" shares in excess of 5% of the Bank's paid-in capital, through one or more simultaneous or successive transactions of any kind. If deemed appropriate, the Ministry of Finance and Public Credit may authorize the acquisition of a higher percentage, provided that it does not exceed 20% of the capital stock.

The Credit Institutions Law requires an appropriation of 10% of net income for the year to statutory reserves, until such reserves reach an amount equal to paid-in capital.

The tax basis of stockholder contributions and retained earnings may be distributed to the stockholders tax free. Distributions in excess of the tax bases are subject to income tax. At December 31, 2021 the capital contribution account (Cuenta de capital de aportación or CUCA, unaudited) and the net taxable income account (Cuenta de utilidad fiscal neta or CUFIN, unaudited), like a Bank without subsidiaries amount to $13,337 and $18,001, respectively.

The retained earnings of subsidiaries may not be distributed to the Bank's stockholders until these are received by way of dividends from the subsidiaries.

(f) Capitalization (unaudited)-

At December 31, 2021 and 2020, the Bank maintained a capitalization index in excess of 10.5%; accordingly, it is classified as Category I in both years in accordance with article 220 of the Provisions in both years, the capitalization index is determined by applying certain percentages according to the risk assigned pursuant to the rules established by the Central Bank. In the next page is the individual Bank's capitalization information (capitalization index reported to the Central Bank and subject to its approval).

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Capital as of December 31:

		2021	2020
Basic capital			
Common shares	$	11,575	10,877
Prior years' results		39,157	36,432
Other elements of the comprehensive income (and other reserves)		16,618	8,013
Basic capital 1 before regulatory adjustments		**67,350**	**55,322**
Regulatory adjustments:			
Deferred debits and prepayments		(7,856)	(5,260)
Investments in clearing house		(344)	(286)
Investment in investment Funds		(7)	-
Credit tax		(2,111)	-
Deferred taxes, favorable items from temporary differences		(230)	(1,769)
Total regulatory adjustments to capital		**(10,548)**	**(7,315)**
Basic Capital 1		56,802	48,007
Basic Capital non-fundamental		3,581	3,580
Total Basic Capital		**60,383**	**51,587**
Supplementary Capital			
Allowable reserves that count as Complementary		1,965	21
Equity instruments		4,211	4,631
Net Capital		**66,559**	**56,239**
Total risk weighted assets	$	431,914	404,186

	2021	2020
Equity and supplementary ration		
Basic Capital Ratio 1	13.15%	11.88%
Basic Capital Ratio	13.98%	12.76%
Supplementary Capital Ratio	1.43%	1.15%
Net Capital Ratio	15.41%	13.91%
Specific institutional supplement	16.25%	14.98%
Supplement capital conservation	2.50%	2.50%
Supplement of local systemic importance (D-SIB)	0.60%	0.60%
Tier 1 common equity available to cover supplements	6.15%	4.88%

** Final information approved by the Central Bank*

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		2021	**2020**
Limits applicable to the inclusion of reserves in supplementary capital:			
Limits applicable to the inclusion of reserves in supplementary capital under standardized methodology	$	2,063	2,057

Total weighted assets at risk as of December 31, 2021

		Risk weighted assets	**Capital requirement**
Exposed positions to market risk by risk factor:			
Transactions in pesos at nominal interest rates	$	43,019	3,441
Transactions with debt securities in pesos with premium and adjustable rates		1,950	156
Transactions in Mexican pesos at real interest rates or denominated in UDIS		1,125	90
Positions in UDIS or with returns linked to the INPC		1,700	136
Foreign currency transactions at nominal interest rates		75	6
Foreign currency positions or with exchange rate indexed returns		1,788	143
Equity positions or with returns indexed to the price of a single share or group of shares		338	27
Capital requirement for Vega impact		13	1
Total market risk, to next page	**$**	**50,008**	**4,000**

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		Risk weighted assets	Capital requirement
Total market risk, from previous page	$	50,008	4,000
Weighted assets subject to credit risk by risk group:			
Group I-B (weighted at 2%)		14	1
Group III (weighted at 10%)		586	47
Group III (weighted at 20%)		5,081	407
Group III (weighted at 25%)		2	-
Group III (weighted at 50%)		113	9
Group IV (weighted at 20%)		2,970	238
Group V (weighted at 20%)		417	33
Group V (weighted at 50%)		49	4
Group V (weighted at 150%)		1,956	156
Group VI (weighted at 20%)		667	53
Group VI (weighted at 25%)		494	40
Group VI (weighted at 30%)		1,882	151
Group VI (weighted at 40%)		1,810	145
Group VI (weighted at 50%)		38,367	3,069
Group VI (weighted at 70%)		156	12
Group VI (weighted at 75%)		18,586	1,487
Group VI (weighted at 85%)		3,572	286
Group VI (weighted at 100%)		80,584	6,447
Group VII-A (weighted at 10%)		150	12
Group VII-A (weighted at 20%)		11,574	926
Group VII-A (weighted at 50%)		7,815	625
Group VII-A (weighted at 100%)		149,892	11,991
Group VII-A (weighted at 120%)		598	48
Group VII-A (weighted at 150%)		1,542	123
Group VII-B (weighted at 23%)		470	38
Group VII-B (weighted at 115%)		62	5
Group VIII (weighted at 115%)		6,503	520
Group VIII (weighted at 150%)		3,081	246
Group IX (weighted at 100%)		15,535	1,243
Derivatives credit valuation adjustment		2,114	169
Exposure to the Default Fund in Clearing Houses		22	2
Total credit risk, to next page	$	**356,664**	**28,533**

(Continued)

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		Risk weighted assets		Capital requirement
Total credit risk, from previous page	$	356,664		28,533
Weighted assets subject to risk and capital requirement from operational risk		25,242		2,019
Total market, credit and operational risk	$	**431,914**		**34,552**
Annual average of positive net income for the past 36 months			$	30,396

Total weighted assets at risk as of December 31, 2020

		Risk weighted assets	Capital requirement
Exposed positions to market risk by risk factor:			
Transactions in pesos at nominal interest rates	$	26,850	2,148
Transactions with debt securities in pesos with premium and adjustable rates		1,863	149
Transactions in Mexican pesos at real interest rates or denominated in UDIS		388	31
Foreign currency transactions at nominal interest rates		2,125	170
Foreign currency positions or with exchange rate indexed returns		1,150	92
Equity positions or with returns indexed to the price of a single share or group of shares		325	26
Total market risk, to next page	**$**	**32,701**	**2,616**

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		Risk weighted assets	Capital requirement
Total market risk, from previous page	$	32,701	2,616
Weighted assets subject to credit risk by risk group:			
Group I-B (weighted at 2%)		2	-
Group II (weighted at 20%)		40	3
Group III (weighted at 10%)		669	53
Group III (weighted at 20%)		3,236	259
Group III (weighted at 25%)		46	4
Group III (weighted at 50%)		515	41
Group IV (weighted at 20%)		1,946	156
Group V (weighted at 20%)		550	44
Group V (weighted at 150%)		1,654	132
Grupo VI (weighted al 50%)		30,354	2,428
Group VI (weighted at 75%)		19,068	1,525
Group VI (weighted at 100%)		92,865	7,429
Group VII-A (weighted at 11.5%)		450	36
Group VII-A (weighted at 20%)		11,594	928
Group VII-A (weighted at 23%)		1,061	85
Group VII-A (weighted at 50%)		8,555	684
Group VII-A (weighted at 100%)		152,794	12,224
Group VII-A (weighted at 115%)		2	-
Group VII-A (weighted at 120%)		603	48
Group VII-B (weighted at 23%)		256	21
Group VIII (weighted at 115%)		4,411	353
Group VIII (weighted at 150%)		2,244	179
Group IX (weighted at 100%)		14,741	1,179
Derivatives credit valuation adjustment		5,181	415
Exposure to the Default Fund in Clearing Houses		17	1
Total credit risk, to next page	$	**352,854**	**28,227**

(Continued)

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		Risk weighted assets		Capital requirement
Total credit risk, from previous page	$	352,854		28,227
Weighted assets subject to risk and capital requirement from operational risk		18,631		1,491
Total market, credit and operational risk	**$**	**404,186**		**32,334**
Annual average of positive net income for the past 36 months			$	27,418

As of December 31, 2021, the net capital structure of the Bank of $66,559 had an increase of 18.4% compared to $56,239 of the year 2020. The growth of net capital during 2021 is mainly due to net income.

As of December 31, 2021, the weightings involved in calculating the institutions' countercyclical capital supplement is zero, so there is no impact for this concept.

(g) Capital management-

To evaluate the capital adequacy, the Bank starts from its Exposition Plan to obtain a prospective vision of the institution that allows to identify risks which is exposed and to make decisions when monitoring key metrics and indicators, such as: Capital, Liquidity, Profitability and Credit Losses.

The Exposition Plan has been structured based on a view of the country´s macroeconomic scenario and plans of the diverse business lines.

At the same time, to ensure the compliance and the continuous monitoring of the capital sufficiency, the Bank has documented an “Action Plan for the Conservation of Capital and Liquidity”, which aims to implement early warning indicators, that are the base for the Liquidity and Capital Management Committee, carry out assessments and monitoring in accordance with the policies, as the impact and magnitude of the stress event.

(Continued)

On a quarterly basis, the capitalization notes are incorporated in the financial reports. Such notes have, among others, the following information: composition and integration of capital, composition of total risk weighted assets and by type of risk and estimates of Capital Index.

Likewise annual stress tests as established by the Banking Commission under various scenarios are performed, in order to ensure that the Bank has the sufficient capital to continue receiving funding and granting loans with these stress scenarios and business strategies. Additionally, an analysis of internal stress scenarios starting from the Plan of Exhibitions as base scenario, that integrate various adverse macroeconomic conditions is performed, in order to disclose exposure of the Bank at different risks.

The Bank carried out its “Capital Adequacy Assessment Exercise” during 2021, this exercise was carefully planned and executed to evaluate the adequacy of capital and liquidity under conditions of stress in internal scenarios. The result of the exercise led to the conclusion that the institution's liquidity and capital would enable it to cope with the risks arising from defined stress scenarios, maintaining its capital ratio and liquidity indicators above minimum regulatory requirements.

On May 12, 2021, the Board of Governors of the Banking Commission ratified the Bank as a Multiple Banking Institution of Local Systemic Importance, through Official Letter No. 141-5/17474/2021. Its degree of systemic importance was defined as Grade I, so it should constitute a capital supplement of 60 basis points. Based on the above, the minimum regulatory capital that the Bank must maintain is 11.10% as of December 31, 2021.

However, in the year of 2020 the Banking Commission issued a series of regulatory facilities for the COVID-19 pandemic, including one that allows banks to use up to 50% of the capital supplement. Facility in force until March 2021, which was later extended to remain in force until December 2021, so the Bank must maintain a minimum regulatory capital of 9.85% until then.

(Continued)

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(21) Related-party balances and transactions-

During the normal course of business, the Bank carries out transactions with related parties such as loans, investments, deposit funding, services, etc. According to the Bank's policies, the Board of Directors authorizes some credit transactions with related parties, which are granted at market rates with guarantees and terms in accordance with sound banking practices.

The main transactions carried out with related parties for the years ended December 31, 2021 and 2020, are as follows:

		2021	2020
Holding Company			
Income:			
Managed Services	$	13	-
Expenses:			
Interest paid	$	18	21
Other related parties			
Income:			
Interest received	$	797	757
Rents and maintenance		36	65
Commissions		49	58
Financial intermediation income		1,588	-
Co-distribution and administration services		581	470
Others		18	1
Expenses:			
Interest paid	$	16	993
Interest and premium son repurchase agreement		1,147	1,099
Financial intermediation income		-	198
Rents		33	21
Administrative services		4,901	9,798
Other expenses		33	131
Interest paid		987	893

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Balances receivable from and payable to related parties as of December 31, 2021 and 2020 are as follows:

		2021	2020
Holding company			
Receivable:	$	13	-
Payable:			
Deman deposits	$	450	437
Other related parties			
Receivable:			
Cash and cash equivalents *	$	40	(58)
Debtor on repurchase / resell agreements		12,006	15,184
Derivatives		75,301	13,116
Commercial loans		859	2,530
Co-distribution		38	42
Debtors on settlement of operations		103	98
Collaterals delivered		575	4,437
Other accounts receivable		995	4,594
Payable:			
Demand deposits	$	361	405
Creditor on repurchase / resell agreements		23,914	21,285
Derivatives		3,023	1,907
Creditors on settlement of transactions		142	9,118
Administrative services		7	926
Other accounts payable		158	35
Subordinated obligations		9,054	9,052
Interbank borrowings		7,179	10,951

*Corresponds to foreign currency to be delivered

For the years ended December 31, 2021 and 2020 there were no changes in the existing conditions of balances receivable from and payable to related parties, there were no items that are deemed irrecoverable or difficult collection and no reserve was required for non-collectability, except loans granted by the Bank where reserves are created according to the methodology of the Banking Commission.

In accordance with Article 73bis of the Credit Institutions Law, the total amount of transactions with related parties is not to exceed 35% of the basic portion of the net capital (see note 20). The loans granted with related parties including letters of credit by the Bank as of December 31, 2021 and 2020 amount to $3,147 and $3,479, respectively. The deposits made by related parties as of December 31, 2021 and 2020 amount to $859 and $122, respectively.

(Continued)

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For the years ended December 31, 2021 and 2020, the benefits granted to senior management amounted to $349 and $34, respectively.

(22) Memorandum accounts-

(a) Credit commitments-

Credit facilities:

As of December 31, 2021 and 2020, the balance of authorized credit facilities not withdraw amounted to $248,105 and $251,255, respectively, within that amount of committed facilities non-withdraw credit facilities amounted for $40,528 and $32,998, in the both years.

Letters of credit:

As of December 31, 2021 and 2020, the Bank has issued letters of credit for $26,798 and $25,235, respectively.

As of December 31, 2021 and 2020, the allowance created for credit letters amount to $325 and $227, respectively, and are included in the allowance for loan losses.

(b) Assets in trust or under mandate-

The Bank's trust activity, recorded in memorandum accounts as of December 31, 2021 and 2020, is shown as follows:

		2021	**2020**
Trust:			
Administration	$	392,897	395,048
Guarantee		2,472	2,647
		395,369	397,695
Mandates		29,096	29,006
	$	**424,465**	**426,701**

Trust revenue accrued for the years ended December 31, 2021 and 2020 amounted $251 and $207, respectively and were recorded in the caption "Commission and fee income".

(Continued)

(Millions of Mexican pesos)

(c) Assets in custody or under management-

At December 31, 2021 and 2020, this caption is comprised of property and securities received in custody, guarantee or under management, is shown follow:

		2021	2020
Securities in custody:			
Securities vault	$	145	-
Investment transactions		43,095	45,950
Securities transactions		8,794	8,794
Other		8,532	8,966
	$	60,566	63,710
Derivatives transactions:			
Futures	$	68,036	31,833
Swaps		421,529	498,260
	$	489,565	530,093
Total assets in custody or under management	**$**	**550,131**	**593,803**

(d) Collaterals received by the entity and collaterals received and sold or pledged by the entity-

At December 31, 2021 and 2020, this caption is comprised of property and securities received in custody, guarantee or under management, as follows:

Collaterals received by the entity:

		2021	2020
Collaterals received by the entity:			
Repurchase / resell agreements:			
LD BONDESD	$	4,620	9,544
IS BPA		615	683
IM BPAG		1,312	1,205
M BONOS		-	3,293
BI CETES		505	10,441
IQ BPAG		1,571	407
S UDIBONO		4,600	1,127
CEDE		227	1,152
	$	13,450	27,852
Guarantees received for derivatives transactions (note 10)		892	474
Guarantees received for credit operations		6,763	7,872
Total, to next page	$	21,105	36,198

(Continued)

(Millions of Mexican pesos)

Securities lending transactions on behalf of costumers: (Note 8)

		2021	2020
Total, from previous page	$	21,105	36,198
UDIBONOS		1,557	523
Total collaterals received by the entity	**$**	**22,662**	**36,721**

(e) Investments on behalf of customers-

As of December 31, 2021 and 2020, funds managed by the Bank following customer instructions for investment in different instruments of the Mexican financial system are recorded in memorandum accounts and are analyzed as follows:

		2021	2020
Government securities	$	131,424	130,425
Bank securities not issued by the Bank		3,377	5,203
Total	**$**	**134,801**	**135,628**

The amount of any funds invested in the Bank's own instruments forms part of the liabilities included in the consolidated balance sheet.

(23) Additional information on operations and segments-

(a) Segment information-

The Bank's operations are classified in the following segments: "Credit and services" (acceptance of deposits, granting of loans) and "Trading and treasury" (securities, derivatives and currency transactions). For the years ended December 31, 2021 and 2020, income by segment is analyzed in the next page.

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		Credit and services	Trading and treasury	Total
December 31, 2021				
Interest income, net	$	22,570	1,756	24,326
Commissions and fees, net; result from trading and other operating income (expense), net		7,003	1,431	8,434
Net operating revenues		29,573	3,187	32,760
Allowance for loan losses [1]		(4,083)	-	(4,083)
Administrative and promotional expenses		(15,933)	(869)	(16,802)
Income before income taxes and equity method in the results of associated companies		9,557	2,318	11,875
Equity method in the results of associated companies				-
Income taxes and deferred income, net				(2,457)
Net income			**$**	**9,418**
December 31, 2020				
Interest income, net	$	25,750	(558)	25,192
Commissions and fees, net; result from trading and other operating income (expense), net		5,557	2,334	7,891
Net operating revenues		31,307	1,776	33,083
Allowance for loan losses		(10,164)	-	(10,164)
Administrative and promotional expenses		(17,730)	(1,190)	(18,920)
Income before income taxes and equity method in the results of associated companies		3,413	586	3,999
Equity method in the results of associated companies				1
Income taxes and deferred income, net				(981)
Net income			**$**	**3,019**

[1] Include $1,938 and $3,750 of additional allowances reported to the Banking Commission as of December 31, 2021 and 2020, respectively.

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(b) Financial margin-

For the years ended December 31, 2021 and 2020, the financial margin in the consolidated statement of income is comprised as follows:

Interest income:

Interest income for the years ended December 31, 2021 and 2020 is comprised as follows:

		Credit and services	Trading and Treasury	Total
December 31, 2021				
Cash and cash equivalents	$	-	1,061	1,061
Margin accounts		-	123	123
Investment securities		-	6,733	6,733
Securities on repurchase / resell agreements		-	1,187	1,187
Current loan portfolio		34,365	-	34,365
Past due portfolio		161	-	161
Loan origination fees		584	-	584
	$	**35,110**	**9,104**	**44,214**

		Credit and services	Trading and Treasury	Total
December 31, 2020				
Cash and cash equivalents	$	-	1,228	1,228
Margin accounts		-	162	162
Investment securities		-	5,885	5,885
Securities on repurchase / resell agreements		-	962	962
Current loan portfolio		39,299	-	39,299
Past due portfolio		97	-	97
Loan origination fees		642	-	642
	$	**40,038**	**8,237**	**48,275**

(Continued)

(Millions of Mexican pesos, except otherwise stated)

An analysis of the loan portfolio interest and commission income by type of loan is shown below, for the years ended December 31, 2021 and 2020:

	2021		2020	
	Current	**Past-due**	**Current**	**Past-due**
Commercial	$ 10,683	77	13,183	52
Financial institutions	1,515	1	2,518	-
Consumer	6,585	79	8,739	45
Residential mortgages	15,356	4	14,552	-
Government entities	810	-	949	-
	34,949	161	39,941	97
	$35,110		**40,038**	

For the years ended December 31, 2021 and 2020, commissions that represent a yield adjustment of 0.07%, 0.70% and 0.09%, for 2021, as well as 0.10%, 0.65% % and 0.09% for 2020, respectively, are recorded within the total interest income from commercial, consumer and residential loans.

For the years ended December 31, 2021 and 2020, total interest income includes interest denominated in foreign currency amounting to 46 million dollars and 49 million dollars, respectively.

Loan origination fees for the years ended December 31, 2021 and 2020 are comprised as follows:

		2021	**2020**
Commercial loans	$	169	226
Consumer loans		256	273
Residential mortgages loans		159	143
	$	**584**	**642**

Amortization term for the fees are from 12 to 360 months.

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Interest expense:

Interest expense for the years ended December 31, 2021 and 2020 is comprised of the following:

		Credit and services	Trading and Treasury	Total
December 31, 2021				
Demand deposits	$	3,613	-	3,613
Time deposits		8,067	-	8,067
Debt securities issued		-	1,222	1,222
Bank and other borrowings		-	2,523	2,523
Subordinated debt issued		-	973	973
Securities on repurchase/resell agreements		-	2,551	2,551
Securities lending		-	4	4
Issuance and placement of debt securities expense		-	23	23
Residential mortgages loan origination fees and expenses		860	-	860
Interests in charge associated with the global account of deposits without movements		-	52	52
	$	**12,540**	**7,348**	**19,888**

		Credit and services	Trading and Treasury	Total
December 31, 2020				
Demand deposits	$	3,356	-	3,356
Time deposits		10,193	-	10,193
Debt securities issued		-	1,996	1,996
Bank and other borrowings		-	3,264	3,264
Subordinated debt issued		-	975	975
Securities on repurchase/resell agreements		-	2,518	2,518
Securities lending		-	2	2
Issuance and placement of debt securities expense		-	14	14
Residential mortgages loan origination fees and expenses		739	-	739
Interests in charge associated with the global account of deposits without movements		-	26	26
	$	**14,288**	**8,795**	**23,083**

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(c) Commission and fee income-

For the years ended December 31, 2021 and 2020, the commission and fee income are analyzed as follows:

		2021	2020
Letters of credit with no refinancing	$	187	186
Account handling		203	86
Trust activities		251	207
Fund transfers		127	151
Electronic banking services		158	127
Credit transactions		1,812	1,530
Other fees and commissions collected [1]		2,753	2,558
	$	**5,491**	**4,845**

[1] For the years ended December 31, 2021 and 2020, the other fees and commissions collected are integrated shown follow:

		2021	2020
Other commissions derived from the loan portfolio	$	1,745	936
Other commissions derived from deposit funding		400	731
Exchange commissions		271	390
Foreign currencies correspondents		156	135
Others		181	366
	$	**2,753**	**2,558**

(d) Financial intermediation income-

For the years ended December 31, 2021 and 2020, financial intermediation income is analyzed as follows:

		2021	2020
Valuation result:			
Investment securities	$	41	(35)
Derivatives:			
Trading		(454)	(73)
Hedging		(446)	(274)
Available-for-sale hedge securities		(18)	41
Foreign currencies and precious metals		(349)	(18)
		(1,226)	**(359)**
Realized gain or (loss):			
Investment securities		26	491
Derivatives:			
Trading		753	830
Transaction costs		(5)	(2)
Foreign currencies and precious metals		1,883	1,374
		2,657	**2,693**
	$	**1,431**	**2,334**

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(e) Other operating income, net-

For the years ended December 31, 2021 and 2020, other operating income, net is analyzed as follows:

		2021	2020
Dividends	$	107	117
Donations		(19)	(21)
Income on sale of foreclosed assets, net		131	122
Taxes		8	3
Income from credit insurance		1,385	1,211
Armored transportation fees		24	4
Distribution of shares of mutual funds		459	470
Loans to employees		46	3
Food coupons		25	36
Write-offs and financial damage		(464)	(602)
Cancellation of liabilities		233	93
Others, mainly support services		449	296
	$	**2,386**	**1,732**

(f) Financial ratios (unaudited)-

The following are the main quarterly financial ratios of the Bank as of and for the years 2021 and 2020:

	2021			
	Fourth	**Third**	**Second**	**First**
Delinquency index	3.87%	3.98%	3.78%	3.57%
Coverage of past-due loan portfolio index	98.60%	100.40%	107.80%	116.10%
Operating efficiency (administrative and promotional expenses / average total assets)	3.00%	1.50%	2.80%	3.00%
ROE (annualized net income for the quarter / average stockholders' equity)	14.20%	22.30%	13.80%	11.40%
ROA (annualized net income for the quarter / average total assets)	1.40%	2.1%	1.2%	1.0%
Net capital / Assets at credit risk	18.66%	18.20%	17.67%	16.83%
Net capital / Assets at credit, market and operational.	15.41%	15.00%	15.11%	14.39%
Liquidity (liquid assets / liquid liabilities)	79.30%	66.60%	78.10%	69.10%
Financial margin after allowance for loan losses / average earning assets	3.40%	3.1%	3.3%	3.2%

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	2020			
	Fourth	**Third**	**Second**	**First**
Delinquency index	3.05%	2.62%	2.58%	2.31%
Coverage of past-due loan portfolio index	134.8%	143.8%	125.0%	121.4%
Operating efficiency (administrative and promotional expenses / average total assets)	3.0%	3.0%	2.8%	3.0%
ROE (annualized net income for the quarter / average stockholders' equity)	7.9%	2.6%	1.4%	10.3%
ROA (annualized net income for the quarter / average total assets)	0.7%	0.2%	0.1%	0.9%
Net capital / Assets at credit risk	15.94%	15.91%	15.14%	14.43%
Net capital / Assets at credit, market and operational.	13.91%	13.85%	13.44%	12.91%
Liquidity (liquid assets / liquid liabilities)	64.0%	76.5%	65.9%	65.8%
Financial margin after allowance for loan losses / average earning assets	2.8%	2.2%	2.2%	2.7%

(24) Commitments and contingencies-

(a) Leases-

Leases provide for periodic rental adjustments based on changes in various economic factors. Total rental expense in office property, software and other for the years ended December 31, 2021 and 2020, amounted to $753 and $883, respectively.

(b) Claims and trials-

In the normal course of the operations, the Bank is involved in some claims and trials, which are not expected to have an important negative effect in the future financial situation and in the results of its operations. In such cases that represent a probable loss or make a cash outflow, the Bank has made necessary provisions.

(c) Commitments-

The Bank has entered into a service provision agreement with SECOSA, for the provision of administrative services. The total payments made for this concept as of June 30, 2021 was $4,761 and as of December 31, 2020, $9,320, and are included in the caption "Administrative and promotional expenses" in the consolidated statement of income.

(25) Risk management (unaudited information)-

Certain amounts and/or percentages calculated in this note may vary slightly against the same amounts or percentages indicated in any other note to the consolidated financial statements due to rounding of the amounts.

The purpose of the comprehensive risk management function is to identify and measure risks, follow up on the impact that these risks may have on the operations and control their effects on income and shareholder value by applying the best mitigating strategies available, and the incorporation of the risk culture in daily transactions.

According to the “General Provisions applicable to Credit Institutions in terms of risk management” issued by the National Banking and Securities Commission, same that are fulfilled by the Bank, the Board of Directors assumes responsibility over the Bank’s risk management objectives, guidelines and policies, likewise it periodically approves the objectives, guidelines and policies as well as the limit structure for the various types of risk.

The Board of Directors delegates to the Risk Committee and the Comprehensive Risk Management Unit (UAIR), the implementation of risk policies and the establishment of specific limits by risk factor, as well as the responsibility to implement the procedures for risk measurement, administration and control, in accordance with established policies.

Furthermore, the Risk Management Committee delegates responsibility to the Asset and Liability Committee (ALIC) for monitoring compliance of policies and procedures concerning market and liquidity risks. In like manner, the UAIR has policies for reporting deviations from the specified limits, which it should report to the Risk Committee and the Board of Directors.

The Bank’s Comprehensive Risk Management Unit is represented by the Assistant General Risk Management (Risk DGA) and relies for the management and administration of the different types of risk (i.e. credit, liquidity, interest rate, market and operational, technological, among others), mainly in the Risk Corporate Management, which in turn is organized into 8 areas designed to monitor and reduce the risks to which the Bank is exposed; this in order to ensure an adequate risk management to comply with the risk profile wanted and defined by the Management Board, and also to improve quality, diversification and composition of the different portfolios, optimizing the risk-return ratio.

(Continued)

The UAIR is responsible for reviewing and submitting for the approval of the Risk Committee and/or the Board of Directors the different methodologies used to manage the risks to which the Bank is exposed as well as the risk appetite framework, management policies for the different types of risk, global and specific exposure limits and the corresponding risk tolerance levels. Additionally, it is also responsible for providing Senior Management with reliable and timely information to support decision-making monitoring, management and administration of the different lines of business.

Finally, risk management is based on international best practices because it has a regulatory framework that allows to comply with local regulations and also with corporate standards and guidelines established by BNS.

(a) Market risk-

The purpose of the market risk management function is to identify, measure, monitor, and control risks arising from interest, exchange rate, stock market price and index fluctuations and other risk factors that are present in the money, foreign exchange, capital and derivative instruments markets, in which the Bank maintains business positions for its own account.

The Bank's risk positions include fixed and floating rate money market instruments, stock, foreign exchange positions and derivatives such as: interest rate futures, futures, foreign exchange forwards and options, interest rate swaps, interest rate options and foreign currency swaps. For each portfolio, there are established and approved limits.

The market risk limits framework contemplates volumetric or notional amounts for value at risk, sensitivity, concentration, "stress" limits and due dates, among others.

Market Risk Management includes monitoring that the risk mitigating factors are up to date and accurate, in this regard, the established and approved limits for each one of the portfolios are daily monitoring and annually reviewed. Furthermore, the models used to manage market risk are reviewed at least biannually; and the Risk Committee and Board of Directors are periodically informed of the performance of the limits, as well as the Market Risk indicators. It is relevant to mention that the limits approved by the Risk Committee and Board of Directors are aligned with the Bank's risk appetite.

Market risk is managed is conducted through specialized systems that perform risk estimates such as risk value, sensitivity and stress tests.

The Bank's securities trading activities are directed primarily to providing service to its customers, therefore, for this purpose, the Bank holds an inventory of financial instruments of shares, interest rates and foreign exchange, the access to market liquidity is available through offers to buy from and sell to other intermediaries. In addition, the Bank has treasury positions invested in the money market so that surplus cash generates the maximum yields. The trading securities portfolio (fixed and variable income and derivative instruments) is marked to market on a daily basis, such information is included daily in the corresponding reports.

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Value-at-risk (VaR)

The VaR is an estimate of the potential loss of value within a specific level of statistical confidence, that might arise from maintaining a specific position during a specific period of time (the holding period) under normal market conditions. VaR is calculated daily on all of the Bank's risk-exposed financial instruments and portfolios.

The VaR is calculated using the historical simulation method, with a 300-working day time span. To conform to the measurement methodologies used, the Bank calculates the VaR considering a 99% confidence level and a 1 day holding period.

The global VaR observed at the end of a day during the fourth quarter of 2021 was $13.54; as a percentage of net capital ($65,442, as of November 2021) at the period's end is equal to 0.02%. During the fourth quarter of 2021, the average one-day VaR, broken down by the Bank's risk factors is as follows:

Risk factor	December 2021 Average VaR 1 day	December 2020 Average VaR 1 day
IR (Interest Rate)	$ 12.53	$ 13.47
EQ (Equity)	1.47	3.84
FX (Foreign Exchange)	0.00	1.77
	$ 12.33	$ 12.44

The distribution of the exposure to market risk (position vs. value at risk) of the trading portfolio as of December 31, 2021 is as follows:

	Position		VaR	
	Closing	Average	Closing	Average
Money market	$ 54,517	52,083		
Derivatives market				
SC Swaps (MXN / USD)	768,725	779,915		
CC Swaps	38,391	30,960		
Caps & floors (MXN / USD)	61,835	58,419		
Market portfolio of interest rates and interest rate derivatives	$ 923,467	921,377	16.82	12.53

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and subsidiaries

Notes to the consolidated financial statements

(Millions of Mexican pesos)

		Position		VaR	
		Closing	**Average**	**Closing**	**Average**
Equity shares		-	-		
Capital derivatives	$	17,255	16,070		
Equity shares portfolio	$	17,255	16,070	1.46	1.47

		Position		VaR	
		Closing	**Average**	**Closing**	**Average**
Spot FX	$	299	102		
FX Derivatives		175,603	166,748		
FX FWD		165,632	159,207		
FX Options		9,972	7,541		
Foreign exchange portfolio	$	175,902	166,850	0.00	0.00

The distribution of the exposure to market risk (position versus value at risk) of the trading portfolio in December 2020 is as follows:

		Position		VaR	
		Closing	**Average**	**Closing**	**Average**
Money market	$	53,521	44,040		
Derivatives market					
SC Swaps (MXN / USD)		648,694	596,739		
CC Swaps		23,204	19,957		
Caps & floors (MXN / USD)		56,567	56,228		
Market portfolio of interest rates and interest rate derivatives	$	781,986	716,964	29.30	13.47

		Position		VaR	
		Closing	**Average**	**Closing**	**Average**
Equity shares		-	-		
Capital derivatives	$	12,822	12,853		
Equity shares portfolio	$	12,822	12,853	2.45	3.84

		Position		VaR	
		Closing	**Average**	**Closing**	**Average**
Spot FX	$	31	37		
FX Derivatives		69,575	96,924		
FX FWD		52,464	82,201		
FX Options		17,112	14,722		
Foreign exchange portfolio	$	69,609	96,961	0.15	1.77

**VaR expressed in millions of pesos.*
**VaR is only presented because the position is in number of contracts operated in MexDer and they are presented in separate tables.*
**The Forwards position is a gross position (long + short) and the exchange table position is net (long - short).*
**The position is expressed in millions of US dollars.*
**Included the Forward Treasury's position.*

(Continued)

Stress testing is performed daily, with the purpose of determining exposure to risk considering large abnormal fluctuations in market prices (changes in volatility and correlations between risk factors). The Risk Committee has approved stress limits.

The stress testing during the last quarter of 2021 shows a maximum loss of $65.592, which compared with the group limit of 130 Canadian dollars ($2,106 expressed in pesos) is within the acceptable parameters. The hypothetical scenarios used for this test are based on 3 relevant systemic scenarios: the 2008 crisis for emerging markets, Mexico 1994 for the so-called “December Error” and Mexico 1997 by the effect of the "Ruble crisis" and the Asian financial crisis.

On the other hand, backtesting is performed monthly for comparing the theoretical losses and gains to the observed VaR and thus calibrate the models being used. The model's efficiency level is based on the approach established by the Bank for International Settlements.

For the valuation and risk models, references are used on updated prices, interest rate curves and other risk factors provided by the price supplier “Valuación Operativa y Referencias de Mercado, S. A. de C. V”.

Sensitivities

Qualitative information on sensitivities

Daily, the market risk sensitivities are calculated for each portfolio to which the Bank is exposed. During 2021, no changes were made to the assumptions, methods or parameters used for this analysis.

Next, a description of the methods, parameters and assumptions used for the portfolio of stock, currency, interest rates and derivative products, is disclosed.

Interest rate portfolio

Sensitivity measures produced for fixed-income instruments (bonds) are based on estimating the behavior of the portfolio’s value in response to a change in the market interest rates.

The sensitivities of the fixed-income instruments portfolio are based on durations and convexities, depending on the particular type of instrument, generating 2 types of measures: (i) the expected change in the portfolio value in response to a change of 1 bp (0.01%) in the yield curve; and (ii) the expected change in the portfolio value in response to a change of 100 bp (1%) in the yield curve. For purposes of this disclosure, we only report the changes in 1 bp.

(Continued)

Two sensitivities are calculated for floating rate bonds: the one relating to the free-risk rate and the other for the spread. In zero-coupons bonds, the computation of the sensitivity of zero-coupon instruments, the term to maturity, expressed in years, is used as duration.

Interest rate derivatives

TIIE and CETE futures: This type of derivative instruments is modeled for purposes of calculating sensitivities such as the future of a zero-coupon rate and, therefore, its duration is taken into account in estimating its sensitivity.

M bond futures: The sensitivity considers the duration and convexity over the bonds deliverable under these contracts.

Interest rate swaps: For determining the sensitivity to changes in the yield curve of TIIE swaps a 1 bp, the change is made in each of the relevant points in the yield curve and a 1 and 100 bp is made parallel, valuing the portfolio with the different curves and calculating the change in the portfolio's value with each of these changes. For information purposes, just changes in 1 bp are reported.

Stock portfolio and IPC derivatives

Equity shares

For stock position purposes, the sensitivity is obtained calculating the Delta by issue within the portfolio. Delta is defined as the change in the portfolio's value in response to a 1% change in the value of the underlying asset.

Equities derivatives

This sensitivity is calculated through the Delta. This portfolio has limits expressed in notional terms.

The Delta risk is defined as the change in the value of the option in response to a change of a predetermined magnitude in the price of the underlying asset (for example 1%). Its calculation is made by valuing the option with different underlying asset levels (one original and one with a +1% shock) and maintaining all other parameters constant.

In the case of non-linear products such as warrants and options, the Delta and the "Greeks". The calculation of sensitivities is based on the formula for modeling options on futures known as the Black (1976) Option Pricing Formula.

Dividend Risk. The valuation of options on index or stocks assumes a known continuous compound dividend rate. Dividends, however, are an estimate and therefore an unknown variable, representing a risk factor for the valuation and the consequent loss and profit analysis of operations with options.

(Continued)

(Millions of Mexican pesos)

There is no greek letter associated to the sensitivity of dividend risk and in the case of options on indices and stock in the Bank, measurement is made by increasing the dividend rate 1% (i.e. from 1% to 1.01%).

Currency portfolio and currency derivatives

Currency

The sensitivity is calculated as the Delta by currency as the change in the portfolio's value in response to a 1% change in the value of the underlying asset.

Currency derivatives

Currency forwards and futures: For this portfolio, the sensitivity is calculated for each currency in response to changes in the interest rate, as the present value result in response to a parallel or not parallel 1 basis point change along the respective yield curves, with all other factors remaining constant.

Currency options: For exchange rate options, sensitivities known for the Greek letters (i.e. Delta, Gamma, Vega, Theta and Rho) are calculated.

Cross Currency Interest Rate Swap (CCIRS): For determining the sensitivity to changes in the yields curve, a one basis point change is made along the respective yields curves, valuing the portfolio with the different curves and calculating the change in the portfolio's value with each of such changes. Also, a parallel analysis with a change of 100 basis point is made. In addition, a one basis point change is made not parallel to the yield curves by time gaps, maintaining all other factors constant. For purposes hereof, we only present the sensitivity for 1 basis point.

<u>Quantitative information on sensitivities.</u>

Interest rate sensitivities

The following table shows the sensitivity of one bp at December 31, 2021 and 2020:

Sensibility 1pb		**December 2021**	**December 2020**
Money market	$	0.572	1.542
Derivatives market		(0.078)	0.225
SC Swaps (MXN / USD)		(0.081)	0.223
CC Swaps		0.001	0.002
Caps & floors (MXN / USD)		0.002	0.000
Interest rate market and rate derivatives portfolio		0.494	1.767

At December 31, 2021, the Bank presents sensitivity in the interest rate portfolio of $0.494.

(Continued)

(Millions of Mexican pesos)

Equity shares and IPC derivatives

Sensitivities for the equity shares and IPC derivatives portfolio at the end of December 2021 and 2020, are not material.

The bank's capital portfolio is made up of shares and capital derivatives. At the end of December 2021, the bank presented a closed Delta sensitivity all underlying assets, due to market movements.

The following table presents the sensitivity measures for non-linear instruments for the end of December 2020, it is important to highlight that the informative report includes Bonds and Warrants based on Structured Notes.

As of December 31, 2021, the position is fully hedged (BtB) with other counterparties.

Underlying	Delta EQ	Vega EQ	Gamma EQ
BABA.USM	0.00	0.00	0.00
IDBTVR.INDX	0.00	0.00	0.00
MEXEZU.USM	0.00	0.00	0.00
MEXFXI.USM	0.00	0.00	0.00
MEXIL5.INDX	0.00	0.00	0.00
MEXIXM.INDX	0.00	0.00	0.00
MEXMSF.INDX	0.00	0.00	0.00
MEXMSI.INDX	0.00	0.00	0.00
MEXSR5.INDX	0.00	0.00	0.00
MEXXLE.USM	0.00	0.00	0.00
TSM.USM	0.000	0.000	0.000
Total	**0.000**	**0.000**	**0.000**

Sensitivity for "Greek" warrants and equity options

Greeks	Delta	Gama	Vega	Dividend risk	Rho
Total	0	0	0	0	0

FX and FX derivatives portfolio

Below are the sensitivities of the exchange table (spot / forward) and the portfolio of currency options as of December 31, 2021 and 2020:

Sensibility 1pb		2021	2020
Spot FX	$	298.560	30.960
FX Derivatives		(274.000)	22.794
Currency derivatives, FX portfolio		24.561	53.753

(Continued)

(Millions of Mexican pesos)

As of December 31, 2021 and 2020, the liquidating trusts of own and third-party accounts maintain positions in contracts in MEXDER; the market risk of these positions for the own account is monitored through the limit called "Pledging of Assets" approved by the Board of Scotia Inverlat Derivatives.

The use of this own account limit as of December 31, 2021 and 2020, respectively, is as follows:

	2021		**2020**	
	Exposure	Limit	Exposure	Limit
Brokerage Firm	38		28	
Bank	692		797	
Total	730	2,000	825	2,000
US Exchanges (USD)	-	0.368	-	0.368

This limit monitors the market risk inherent in these operations, since their use is measured through the minimum initial contributions (AIM´s) requested by the Clearing House (Asigna).

For the third party position, each client that operates within the trust for a third party account, has an operating limit which is monitored on a daily basis, at December 31, 2021 and 2020, the exposure in contracts and the total AIM's of the third party account is summarized as follows:

	2021	**2020**
	Exposure	Exposure
AIM's	7,765	7,114
Futures Short (contract number)	442,027	206,574
Long Futures (contract number)	241,196	55,127
Short Options (contract number)	13	43
Long Options (contract number)	13	35
Short swaps (contract number)	4,087,411	1,915,839
Long Swaps (contract number)	2,789,494	2,777,135

(Continued)

(b) Liquidity and interest rate risk-

The Bank manages exposure to liquidity risk and interest rate risk according to the applicable regulatory provisions and the better market practices, considering those positions for structural handling of the balance sheet.

For liquidity and interest rate risk management, limits have been established which are reviewed at least annually and monitored periodically[1] so that risk mitigators are updated and accurate. Among the applicable limits are those related to liquid assets, liquidity gaps, margin sensitivity and economic value sensitivity, which are aligned with the Bank's risk appetite. The structure of liquidity risk limits and interest rates contemplates notional amounts, as well as term and concentration; The Assets and Liabilities Committee, the Risk Committee and the Board of Directors are periodically informed about the performance of said limits, as well as the indicators regarding liquidity risk and interest rates.

For the management of liquidity risk and interest rates, the information is extracted from the various applications and systems that the Bank has, also through specialized systems, estimates are made in relation of liquidity risk and interest rates.

In addition, it is important to point out that for the management of liquidity and interest rate risk there are prospective metrics, which are incorporated in the annual exercise of the Exposure Plan, Capital Sufficiency Exercises under own and regulatory scenarios, as well as such as the Contingency Plan (for solvency and liquidity risks) of the Bank; and with tests under extreme scenarios and back testing tests. It should be noted that the models used to manage liquidity and interest rate risk are reviewed at least annually.

The Bank assumes liquidity risks as an intrinsic part of its function as financial intermediary. The liquidity risk is the result of cash flow gaps. The objective of the liquidity risk management process is to guarantee that the Bank will be able to meet the totality of its obligations as they become due and payable. To such end, the Bank applies controls to liquidity gaps, monitors key liquidity indicators, maintains diversified funding sources, establishes limits, and maintains a minimum percentage of liquid assets.

The liquidity risk is monitored and controlled through accumulated liquidity gaps. These gaps are built through maturities and cash flows from payments of the different instruments of the balance sheet, both assets and liabilities, thus creating a daily gap that corresponds to the differences between payment obligations and receivables generated day to day. The liquidity gaps include the Bank's contractual maturity flows (cash inflows and outflows). The liquidity gaps are estimated under corporate guidelines that consider normal market conditions and are different from those gaps calculated for estimating the liquidity coverage ratio, since the last include stress factors for both inflows and outflows.

(Continued)

[1] Depending on the nature of the limits, these are monitored on a daily basis, weekly or monthly.

(Millions of Mexican pesos)

For measuring liquidity risk, the cumulative liquidity gaps at December 31, 2021 and the average of the same year were as follows:

	December 2021[2]	Average position
30-day cumulative gap (MXN+UDIs + USD)	$ 52,290	51,161
Liquid assets (under CCL metric)	96,431	108,425

The accumulated liquidity gaps imply contractual maturities, including hedging derivative positions. Additionally, liquidity risk exposures are within the approved limits.

As can be seen in the previous table, it is highlighted that the Bank has maintained a solid liquidity position in the face of the health contingency due to COVID-19, with an average CCL during 2021 of 152%, remaining above 100%; as well as a large reserve of liquid assets.

On the other hand, the interest rate risk derive from the uncertainty in earnings and / or value of the portfolio as a result of changes in interest rates, and occurs when there are mismatches (gaps) in the review of assets and liabilities with contractual maturity or subject to rate revision within a specified period, or else, when there are different reference rates for assets and liabilities. This risk appears as a result of the Bank's funding, placement and investment activities and materializes in the event of a change in interest rates as a variation in the financial margin.

For the measurement of interest rate risk, it is used indicators such as sensitivity of economic value and margin sensitivity. For the calculation of those indicators it is used the repricing gaps, built based on reference rates of assets and liabilities. In the case of fixed rate positions the indicators are modeled according to contractual amortizations and maturities, while positions referenced to a floating rate are modeled according to their next repricing date. The methodology for calculating the indicators considered assumptions of stability of demand deposits and prepaid mortgages. The first consists of an analysis of harvests in order to evaluate the permanence of the deposits while the second considers segmentation by age of the credit in order to assign a prepayment rate.

Both the sensitivity of Economic Value and the margin sensitivity contemplate an impact of ± 100 base points on interest rates and considers the maximum loss expected by stage. This measurement is carried out on a weekly basis and is reported to the members of the Assets and Liabilities Committee, the Risk Committee and the Board of Directors in their respective sessions.

(Continued)

[2] Previous figures to December 2021.

(Millions of Mexican pesos)

The sensitivity of the Economic Value incorporates the impact of change in interest rates on total expected cash flows in a 30-year window and provides a measure of long-term impact of these variations, while the time window to estimate margin sensitivity is 12 months.

The estimated Economic Value and Margin Sensitivity at the end of December and on average for 2021 and 2020, is as follows:

	2021		2020	
	December	**Average**	**December**	**Average**
Economic value (+100pbs)	$ (596)	(602)	(979)	(976)
Margin sensitivity (+100pbs)	390		538	651
574				

Treatment for securities available for sale

Below is the valued position for the Bank available for sale investments at month December 2021 and 2021 average:

	2021[1]	
	December	**Average**
Bank	16,168	$ 15,946
Corporate	1,259	1,316
Government	44,639	41,530
Total	$ 62,066	$ 58,792

1/ Includes direct sales and repurchase agreements.

Available-for-sale Securities, as being integral part of the balance sheet management for the Bank, are monitored under the sensitivity measurements already explained (Economic Value and margin sensitivity) and therefore are excluded in the VaR calculation.

(Continued)

(Millions of Mexican pesos)

Below is a summary of the derivatives for hedging interest rate and exchange rate risk at the end of December 2021, these positions are excluded from the VaR calculation because their purpose is to hedge the structural balance of the Bank and the risk factor sensitivity is measured within the Economic Value and Margin Sensitivity of the Bank.

Strategy	December 2021 Notional	December 2020 Notional
Interest rate swaps paid at fixed rate (cash flows)	**32,975**	**30,425**
0y - 3y	19,975	17,075
3y - 5y	7,750	8,100
5y - 10y	5,250	5,250
Interest rate swaps paid at fixed rate (fair value)	**16,908**	**13,890**
0y - 3y	8,431	6,846
3y - 5y	3,612	5,856
5y - 10y	4,865	1,188
Interest rate swaps paid at fixed rate (fair value in USD)	**408**	**341**
0y - 3y	230	135
3y - 5y	167	195
5y - 10y	11	11
CCIRS paid at fixed rate (fair value in USD)	**5**	**135**
0y - 3y	5	40
3y - 5y	0	5
5y – 10y	0	90

Bank’s rating downgrade-

As a conservative measure and as a way to be prepared for a possible increase in liquidity requirements as a result of a possible downgrade in the Bank's rating (this associated with the fact that a downgrade in the Bank's rating would trigger an increase in the collateral required in derivative transactions) , the risk management group periodically performs the impact that this scenario would have and the consequences on liquidity and liquid assets measures. The impact of the downgrade in the Bank's rating in 3 levels for the end of December 2021 and the average for 2021 were $ 2,314 and $ 1,969, respectively.

(Continued)

Generic description of valuation techniques

Derivative financial instruments are valued at fair value, in accordance with the provisions of Accounting Criterion B-5, Derivatives and hedging operations issued by the Banking Commission.

The evaluation methodology for positions for trading purposes is carried out in (a) organized markets where the valuation is made at the market price in question, prices are provided by the price provider contracted by the Bank and (b) markets OTC in which the present value of the estimated future flows is obtained.

In all cases, the Bank carries out the valuations of its positions and recording the value obtained.

Regarding hedging positions, which seek to hedge the evolution of the financial margin of their structural portfolios exposed to adverse movements in interest rates, they are classified as such when they meet the following conditions:

a. The hedging relationship is designated and documented in its initial moment with an individual file, setting its objective and strategy.

b. The hedge is effective to offset variations in fair value or cash flows attributed to the hedged risk, consistent with the risk management initially documented.

On the other hand, it is required to demonstrate that the coverage effectively fulfills its objective. This requirement of effectiveness assumes that the coverage must meet a deviation range between 80% and 125%. To demonstrate the effectiveness of the hedges, it is necessary to meet two tests: (1) the prospective test to show that the hedge remains within the acceptable deviation range and (2) the retrospective test that is performed in the past to the date of its constitution up to the current moment and that said coverage is within the permitted range.

As of December 31, 2021, the fair value and cash flow hedges are effective and within the allowed deviation range.

(Continued)

(c) Credit risk-

Potential loss due to default by a borrower or counterparty in transactions carried out by the Bank in loan portfolio, securities portfolio, transactions in derivatives, etc.

The Bank's credit risk management is based on the application of well-defined strategies for controlling this type of risk, which include the centralization of credit processes, the diversification of the portfolio, credit analysis, close monitoring and a credit risk rating model, this credit risk management incorporates financial instruments.

The Bank has two different levels of credit resolution: the Board of Directors and joint powers of the Credit department. Each level is defined depending on the amount of the transaction, risk rating of the borrower, the type of borrower and the purpose for which the funds will be used.

For the management of credit risk, the information is extracted from the various applications and systems available to the Bank. It is also through specialized systems where estimates are made, such as the expected loss, unexpected and potential future exposure for the counterparty credit risk.

In the case of the commercial loans, business areas continually evaluate the financial position of each client, by exhaustively reviewing and analyzing the risk of each loan at least once a year. These reviews consider the global credit risk, including operations with financial instruments and derivatives. Complementary reviews are conducted more frequently in the case of identified risks.

For the case of mortgage and consumer portfolio, there are also policies and procedures established to manage the authorization processes of new credits and monitor the credit quality of the different credit portfolios.

Credit risk concentrations - The Bank has implemented policies and procedures to maintain a sound and diversified portfolio with a prudent and controlled risk. Among such policies are the setting of credit risk exposure limits, considering business unit, currency, term, sector, etc. The limits are authorized annually to the Risk Committee and/or the Board of Directors; their behavior is monitored and reported to the Risk Committee on a monthly basis and to the Board of Directors every quarter, in its case.

(Continued)

(Millions of Mexican pesos)

Methodology to identify, quantify, manage and control credit risk - The process to set exposure limits for each type of portfolio subject to credit risk contemplates the analysis of the information and identification of the risks inherent to each borrower, documented policies based on an authorization process and ongoing review. All credit exposures including financial instruments and derivative, are monitored by the UAIR; the monitoring process considers informing the Risk Committee and the Board of Directors of the usage of specific limits, the excesses observed and the strategies implemented to restore parameters. Also, the Board delegates to the Risk Committee the power to authorize limits and updates methodologies for managing credit and counterparty risk.

Methodology used to determine allowances for loan losses - The Bank uses a credit risk classification system approved at the institutional level for commercial loans portfolio and score models and/or metrics of performance follow up for retail loans portfolio. Also, it has processes and systems that allow portfolio classification by risk level and estimating reserves in accordance with regulatory models from the CNVB.

Commercial loans

The Bank applies the Standard Models determined by the CNBV for the entire portfolio; at December 31, 2021 the portfolio is comprised as follows:

Group	Appendix CUB	% Total Portfolio
States and Municipalities	Appendix 18	0.97%
Investment Projects with own source of payment	Appendix 19	1.60%
Financial Sector Entities	Appendix 20	5.95%
Corporations and Individuals with business activities with income or sales less than 14MM UDIS *	Appendix 21	17.85%
Corporations and Individuals with business activities with income or sales greater than 14MM UDIS	Appendix 22	73.63%

** It includes trustees who act under trusts and "structured" loan schemes with modification of net worth that allow for the individual assessment of the related risk.*

The Bank uses the following Rating Agencies in the standard method: S&P, MOODY'S, FITCH, HR RATINGS y VERUM, based on Appendix 1-B of the CNBV "Mapping of rating and degrees of risk".

(Continued)

The grade of rating agencies is used by the Bank to Calculation of Probability of Default of clients:

- States and Municipalities
- Admissibility of guarantors with a risk level of 1 and/or 2.
- Clients located abroad, when they have a rating from a global scale agency, long term, risk level 1 and/or 2 and have no information of payment experience within the domestic Credit Information Companies.

Allowance for commercial loans is based on the individual assessment of the credit risk of debtors and their rating, in compliance with the general provisions. (standard methodology).

Except to rate portfolio secured by or owned by the Federal Government, Bank of México and the Mexican Bank Savings Protection Institute or IPAB, in accordance with the Rule for rating the Loan Portfolio of Multiple Banking Institutions.

Credit risk hedging management and recognition process. The Bank has policies implemented for the evaluation of guarantees, which implies the review of each one of the elements and risks related, depending on the type, considering both the guarantee policies and those corresponding to the analysis and evaluation of credit. For which the Bank applies controls on the assessment of the guarantor / liable party, identifying the detail of the corporate structure and any significant aspect of subordination affecting the support provided.

The credit rating of the guarantor or liable party must be determined continuously and consistently during the term of the loan.

Likewise, in the case of the mortgage portfolio and considering the indications of Articles 101, 102 and Appendix 25 of the Single Circular of Banks, the first loss insurance scheme is applied to mitigate credit risks, the amount covered by the scheme at closing of the fourth quarter corresponds to $197; insurance coverage is incorporated in the calculation of the Loss given default parameter.

Control mechanisms for rating systems, including an analysis of independence, accountability and evaluation. The Bank has several application, used to control rating systems and the proper and complete record of the characteristics and requirements of each guarantee are described, defined in the institutional guarantee catalog, as well as credit application and authorization processes.

The referred systems classifies the portfolios and rates credits under the standard rating methodologies determined by the CNBV. With regard to the allowances for loan losses for borrowers related to consumer and mortgage portfolios, in addition to the commercial loan portfolio, the Bank uses the regulatory methodologies published in the CUB, based on the calculation of the Expected Loss for each of the loan portfolios using the parameters of Probability of Default (PD), Loss Given Default (LGD) and Exposure at Default (ED) are based on specific information and characteristics of the assessed borrowers and loans.

(Continued)

Special Accounting Criteria for the SARS-CoV2 virus support program (COVID-19)

With the objective of mitigating the negative economic effects derived from the contingency caused by the SARS-CoV2 virus (COVID-19), based on official letter P285 / 2020 of the Banking Commission, expressly notified to the Bank by official letter number 141-5 / 2046 / 2020, a support scheme was issued for borrowers whose source of payment was affected by this contingency. The support consisted of the credit portfolio of clients affected by this pandemic being considered for accounting as current, complying with the special criteria established by the Banking Commission. Based on the CNBV official letter P325 / 2020 issued on June 23, 2020, it notified the extension for an additional month to the scheme, that is, the procedures for the restructuring or renewal of each of the credits to adhere to the program, had to be completed by July 31, 2020.

Support plan for commercial portfolio loans. The support program allowed borrowers to be granted a partial or total deferral of principal and / or interest payments for up to 6 months. The Bank determined the general conditions of the program in support of its clients, reported it to the Banking Commission and reported month by month the loans benefited from it. The program ended on July 31, 2020, with the maximum deferral being on December 31, 2020, therefore at the end of December 2020 the application of the program for commercial portfolio concluded.

Support plan for consumer loans and small businesses. The Bank developed a customer assistance plan, which consisted of implementing payment deferral up to a maximum of 6 months through the acceptance approach for customers who cannot maintain future payments due to the loss / reduction of income caused by COVID-19:

Deferment conditions.

- The payment deferral is up to a maximum of 6 months.
- These clients will not be marked as restructured for reporting purposes to the credit reporting company.
- There will be no capitalization of interest.

Client eligibility.

- Client in the "Valid Accounting" stage based on the letters P285 / 2020 and P325 / 2020 of the Banking Commission.
- National coverage.
- Applies to all Consumer and Small Business products.

(Continued)

Constitution of additional reserves due to the SARS-CoV2 virus (COVID-19) health emergency

During 2020, the Bank has established additional reserves for $3,750 to cover incremental risks derived from the health emergency due to COVID-19, that is, risks not foreseen in the different loan portfolio rating methodologies.

The aforementioned incremental risks are based on the impact on the country's macroeconomic and financial picture, which impacted the loan quality and ability to pay of the borrowers of the Bank's different portfolios figures.

Additional reserves were constituted without direct allocation for any portfolio, as, they were established as generic reserves and their application is in accordance with the particular needs of each portfolio. Consumption and the release of these reserves began during the first quarter and continued during the other quarters of 2021; the total amount of additional reserves due to COVID-19, at the end of December 2021 amounts to $1,938.

The process developed by the Bank to calculate the additional reserves includes the analysis and the effect of significant variables such as: sectors of the economy, macroeconomic projections and characteristics of the portfolios.

Methodological information

The measurement and monitoring of the credit risk is also based on an expected and unexpected loss model carried out in a specialized, internal, robust and institutional use tool.

- The expected loss represents the amount that the Bank expects to lose during the next twelve months due to defaults given the characteristics of its portfolios. It is equals the result of multiplying the exposure at default (ED), the probability of default (PD) and the loss given default (LGD) of credit exposures.

- The unexpected loss is a measure of dispersion around the expected loss. Represents the economic capital necessary to keep the Bank solvent in the event of a large adverse event that impacts credit portfolios.

  Additionally, tests are carried out under extreme conditions to determine its impact on the expected and unexpected loss of the portfolio.

(Continued)

(Millions of Mexican pesos)

As of December 31, 2021 and 2020 and in average for the fourth quarter of 2021 and 2020, the expected and unexpected loss over the Bank's total portfolio, was as follows:

Metrics [1]	**December 2021**	**Average Q4 2021**	**December 2020**	**Average Q4 2020**
Expected loss	4,876	4,836	5,362	5,483
Non expected loss	21,430	21,600	22,081	22,538

1/ Excludes past due portfolio.

<u>*Exposure of the loan portfolio by type of portfolio*</u> [3]- As of December 31, 2021 and 2020 and in average for the fourth quarter of 2021 and 2020, the exposure of the loan portfolio corresponds to the following:

	2021		**2020**	
Total exposure (current more past due) loan portfolio	**December**	**Fourth quarter average**	**December**	**Fourth quarter average**
Mortgage loans	171,161	168,318	$151,493	150,648
Auto loans	20,760	20,899	23,313	23,606
Non-revolving personal loans[1]	4,269	4,298	4,890	4,871
Revolving personal loans[2]	11,238	11,277	13,359	13,794
Commercial loans[3]	257,110	256,629	247,386	249,558
Total [4]	**464,538**	**461,421**	**$440,441**	**442,477**

1/ Incorporates non-revolving personal loans (payroll and open market), Scotianline (SL) and credit card (TC) restructurings.
2/ Includes loans from Commercial portfolio, States and Municipalities, Federal Government, Investment Projects with own payment sources, Financial Institutions, Credit Letters, PyME and Konfio portfolio.
3/ Mortgages + Auto loans + Non-revolving consumer loans + SL + TC + Commercial Portfolio.

(Continued)

[3] For the purposes of this document, both the balance of Scotia Line corrESPSonding to restructuring ($192) and the balance corrESPSonding to restructuring of Credit Card ($535) are presented in the Non-Revolving Personal Loans portfolio. Exposures associated with the portfolios HITO (mortgage portfolio originated by INFONAVIT but funded by the Bank) and KONFIO (acquired SME loans) are incorporated.

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Risk Parameters (PD, LGD and ED) of the credit portfolio (December 31, 2021)

Portfolio	Exposure to default (ED)[1]	Probability of default (PD)[2]	Loss given default (LGD)[2]
Mortgage loans	$ 157,576	1.50%	18.42%
Infonavit (HITO)[5]	6,253	6.95%	23.93%
Non-revolving consumer loans	24,024	2.85%	71.75%
Scotia Line (Revolving)	6,259	7.69%	71.10%
Credit card	21,803	8.05%	73.16%
Commercial Portfolio[3]	259,377	3.15%	43.50%
Investment Projects[4]	3,766	0.32%	45.00%

1/ Determined under regulatory methodology. (Exclude nonperforming loans, include PyME and Konfio Portfolio).
2/ Weighted risk parameter from exposure to default. (Exclude nonperforming loans).
3/ Excludes Investment Projects.
4/ PI determined implicitly upon considering reserve determined under regulatory methodology between SP (45%).
5/ Corresponds to HITO portfolio: mortgage portfolio originated by INFONAVIT but funded by the Bank.

Credit risk management information for the commercial portfolio

The total amount of gross exposures with credit risk as of December 31, 2021, broken down by the main types of credit portfolio is made up as shown in the following sheet.

(Continued)

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Portfolio Total Exposures (Segment)	Exposures (disposed amount) December 2021
Government	$ 12,389
Corporate Baking	150,126
Enterprise Banking	93,042
Small and Medium-sized entities (PyME for its acronym in Spanish)	830
Consumer loans (Retail)	723
Total	**$ 257,110**

Note: It includes letters of credit.

Distribution of exposures by economic sector

The distribution of exposures by economic sector broken down by major types of exposures, including the list of current, past-due and nonperforming loans, allowance for loan losses is summarized as follows:

Distribution of exposures by economic sector, including, nonperforming loans, past-due loans and allowance
(at December 31, 2021)

Sector industrial	Loan portfolio		Nonperforming			Total exposure	Allowance [1]	Variation allowance vs previous quarter (September 2020)	Average of days Past-due
	Current loans	Past-due loans	Current loans	Past-due loans	Opening balance				
Financial institutions	$ 15,258	-	-	-	-	15,258	98	23	7
Consumer	16,773	78	-	347	1,170	17,198	554	22	249
Financial Intermediaries and Investment	16,281	-	13	146	945	16,440	285	(6)	376
Food and beverages	23,612	3	-	899	1,217	24,514	1,033	64	558
Oil & Gas	16,420	-	-	-	-	16,421	212	(15)	21
Other Sectors	158,825	898	1,708	5,849	26,026	167,280	6,057	806	298
Total	**$247,170**	**979**	**1,720**	**7,241**	**29,358**	**257,110**	**8,239**	**895**	**1,509**

1/ Does not include additional allowance.

(Continued)

(Millions of Mexican pesos)

Distribution of exposures by region

The geographical distribution by region, including the list of the current, past-due and nonperforming loans, allowance for loan losses are shown below:

Geographical distribution by region of commercial loans
(At December 31, 2021)

Region[2]	Loan portfolio		Nonperforming		Total exposure December 2020	Allowance[1]
	Current	Past-due	Current	Past-due		
Central	$ 16,748	-	324	2,155	19,226	1,336
Metropolitan	177,679	902	279	1,919	180,779	3,626
North	38,711	-	812	1,444	40,967	1,668
South	12,546	10	305	1,724	14,585	1,542
Total	**$ 245,684**	**912**	**1,720**	**7,241**	**255,557**	**8,173**

1/ Not included additional allowances.
2/ Not included total Exposure of Pyme for $830, or Consumer (Retail) for $723.

Breakdown of the current and past due portfolio as December 2021 by remaining term is detailed below:

Current and Past Due Portfolio by remaining term - Commercial Portfolio
(At December 31, 2021)

Term	Current	Past-due	Total exposure
Past-due loans	$ -	8,220	8,220
Up to 1 year	130,529	-	130,529
1 to 2 years	22,878	-	22,878
2 to 3 years	29,897	-	29,897
3 to 4 years	15,859	-	15,859
4 to 5 years	34,770	-	34,770
Over 5 years	14,957	-	14,957
Total	**$ 248,890**	**8,220**	**257,110**

(Continued)

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List of credit risk allowances

The list of credit risk allowances classified according to Article 129 is as follows as of December 2021:

Score	Allowance[1]
A1	$ 918
A2	790
B1	447
B2	162
B3	231
C1	66
C2	173
D	1,795
E	3,658
Total	**$ 8,239**

1/ Additional reserves are not included.

The reconciliation of the changes in preventive reserves for loans that are troubled as December 2021 is detailed below:

Allowance for loan losses – **Non-performing loans Commercial Portfolio** *(at December 31, 2021)*	**Amount**
Beginning balance of Allowance September 2021	**$ 7,502**
Increase in provision	-
Movements in Reserves by:	870
Exchange rate fluctuations	(5)
Creation _ Release by Rating	997
Write-offs, Dations and partial write-offs	(122)
Foreclosure	-
Final balance of allowance December 2021	**$ 8,373**
Loan recovery	23

* Includes additional allowance (past due interest and other).

(Continued)

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Financial Information of the Retail Loan Portfolio

For the purposes of this document, the treatment within the credit portfolio tables of the balance of Scotialine for $192 and credit cards for $535 corresponding to restructurings is included in the portfolio of personal loans, as required by the regulation.

In the following tables, the non-revolving portfolio consists of: payroll credits, auto loans, personal loans, overdrafts, credit card and Scotialine restructures (the total amount of Scotialine considering restructurings at the close of December 31, 2021, is $2,555).

Geographical distribution of the exhibitions by the main states

The geographical distribution of the exposures in the main states and main exposures as of December 31, 2021, are broken down as follows:

Financial information by geographical distribution of the loan portfolio *(At December 31, 2021)*	**Mortgage loan portfolio** [1]	**Non revolving loan portfolio** [2]	**Revolving loan portfolio**	**Total**
Mexico City	$ 110,247	22,045	2,461	134,753
State of Mexico	9,439	196	1,333	10,968
Jalisco	8,031	279	808	9,118
Nuevo León	6,276	339	709	7,324
Querétaro	5,755	76	205	6,036
Chihuahua	3,122	120	245	3,487
Coahuila de Zaragoza	3,216	217	437	3,870
Guanajuato	2,449	83	331	2,863
Veracruz de Ignacio de la Llave	2,431	134	447	3,012
Puebla	2,089	110	334	2,533
Others	18,106	1,430	3,928	23,464
Total	**$ 171,161**	**25,029**	**11,238**	**207,428**

[1] *Includes the portfolio corresponding to FOVI loans.*
[2] *Includes Payroll loans, Auto loans, Personal loans, and restructured revolving portfolio.*

(Continued)

(Millions of Mexican pesos)

Distribution of exposure by product

Distribution of exposure by product at December 31, 2021, is as follows:

Loan portfolio *(at December 31, 2021)*	**Pesos**	**Dollars**	**Total**
Mortgage Loans [1]	$ 171,091	70	171,161
Non-revolving loan portfolio [2]	25,029	-	25,029
Revolving loan portfolio	11,238	-	11,238

[1] *Includes the portfolio corresponding to FOVI loans.*
[2] *Includes Payroll Credit loans, Auto loans, Personal loans, and restructured revolving portfolio.*

Current and past due loan portfolio by remaining term

Financial Information by remaining term of the Retail Portfolio - Current *(Average term)*	**Months**	**Years**
Mortgage portfolio [1]	173	14
Non-revolving loans [2]	29	2
Revolving loans	-	-

[1] *Includes the portfolio corresponding to FOVI loans.*
[2] *Includes Payroll loans, Auto loans, Personal loans, and revolving portfolio restructuring.*

Financial Information by remaining term of the Retail Portfolio - Past Due *(Average term)*	**Months**	**Years**
Mortgage portfolio [1]	156	13
Non-revolving loans [2]	23	2
Revolving loans	-	-

[1] *Includes the portfolio corresponding to FOVI loans.*
[2] *Includes Payroll loans, Auto loans, Personal loans, and restructured revolving portfolio.*

(Continued)

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Financial information for total retail portfolio by remaining term *(Average term)*	**Months**	**Years**
Mortgage portfolio [1]	173	14
Non-revolving loans [2]	29	2
Revolving loans	-	-

[1] Includes the portfolio corresponding to FOVI loans.
[2]Includes Payroll loans, Auto loans, Personal loans, and restructured revolving portfolio.

Exposures distribution of the current and past due portfolio by product

Financial information retail portfolio status *(at December 31, 2021)*	**Current**	**Past-due**	**Total**
Mortgage portfolio [1]	$ 163,829	7,332	171,161
Non-revolving loans [2]	24,025	1,004	25,029
Revolving loans	10,852	386	11,238

[1] Includes the portfolio corresponding to FOVI loans.
[2] Includes Payroll loans, Auto loans, Personal loans, and restructured revolving portfolio.

Allowance for loan losses classified under Article 129

Allowance for loan losses by degree of risk of the Credit Portfolio (at December 31, 2021)	**Mortgage loans [1]**	**Non-revolving loans [2]**	**Revolving loans**	**Total**
A-1	$ 265	106	439	810
A-2	12	29	179	220
B-1	14	44	58	116
B-2	63	46	38	147
B-3	65	22	40	127
C-1	50	31	77	158
C-2	255	22	140	417
D	999	44	331	1,374
E	1,304	930	776	3,010
Total	**$ 3,027**	**1,274**	**2,078**	**6,379**

[1] Exclude the portfolio corresponding to FOVI loans, $12
[2] Includes Payroll loans, Auto loans, Personal loans, and restructured revolving portfolio.

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Variation in allowance for loan losses and impaired loans during the period

Variation of allowance for Retail loan losses	December 2020	December 2021	Variation
Mortgage portfolio [1]	$2,370	3,027	+657
Non-revolving loans [2]	1,921	1,274	-647
Revolving loans	2,957	2,078	-879

[1] *Exclude the portfolio corresponding to FOVI loans, $12*
[2] *Includes Payroll loans, Auto loans, Personal loans, and restructured revolving portfolio.*

Non-performing loans broken down by significant states including, the amounts of the allowance for loan losses related to each geographic area [3]

Financial information by geographical distribution of the non-performing loans * *(at December 31, 2021)*	**Mortgage portfolio [1]**		**Non-revolving loans [2]**		**Revolving loans**	
	Balance	**Allowance**	**Balance**	**Allowance**	**Balance**	**Allowance**
Mexico City	$ 4,104	1,476	700	534	87	71
Jalisco	387	123	27	21	26	21
State of Mexico	457	127	37	30	46	37
Veracruz	216	70	15	11	19	15
Nuevo León	287	69	20	16	19	15
Puebla	177	53	13	10	13	10
Tamaulipas	82	28	13	10	14	12
Querétaro	234	72	8	6	10	8
Coahuila	153	47	16	13	11	9
Sinaloa	95	28	6	5	10	8
Others	1,140	353	149	116	131	106
Total	**$ 7,332**	**2,446**	**1,004**	**772**	**386**	**312**

[1] *Exclude the portfolio corresponding to FOVI loans, $12.*
[2] *Includes Payroll loans, Auto loans, Personal loans, and restructured revolving portfolio.*
** Note: Non-performing loans portfolio is equal to the past due portfolio.*

(Continued)

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Reconciliation of changes in allowance for loan losses to non-performing loans [3]

Variations in allowance for non-performing loans *	Mortgage Portfolio [1]	Non-revolving loans [2]	Revolving loans
Allowance at September 30, 2021	**$ 2,377**	**882**	**350**
Releases [3]	-213	-298	-215
Transfer from current to past-due portfolio	61	76	68
Transfer from past-due to current portfolio	-142	-101	-22
Decreases in the balance of reserves (includes write-offs and debt forgiveness)	-43	-24	-1
Increases in the balance of reserves	406	237	132
Allowance at December 31, 2021	**$ 2,446**	**772**	**312**

[1] Includes the portfolio corresponding to FOVI loans and the portfolio of loans purchased from securitized loans.
[2] Includes Payroll loans, Auto loans, Personal loans, and restructured revolving portfolio.
[3] All credits that in the quarter no longer appeared for reasons like changes of status on the credit card, pay-offs, etc.
** Non-performing loans equal past-due loans.*

Variations in allowance for non-performing loans *	Mortgage Portfolio [1]	Non-revolving loans [2]	Revolving loans
Allowance at September 30, 2020	**$ 1,764**	**1,084**	**793**
Releases [3]	-505	-642	-775
Transfer from current to past-due portfolio	111	39	45
Transfer from past-due to current portfolio	-210	-286	-13
Decreases in the balance of reserves (includes write-offs and debt forgiveness)	-50	-26	-3
Increases in the balance of reserves	1,336	603	265
Allowance at December 31, 2021	**$ 2,446**	**772**	**312**

[1] Includes the portfolio corresponding to FOVI loans and the portfolio of loans purchased from securitized loans.
[2] Includes Payroll loans, Auto loans, Personal loans, and restructured revolving portfolio.
[3] All credits that in the quarter no longer appeared for reasons like changes of status on the credit card, pay-offs, etc.
** Non-performing loans equal past-due loans.*

(Continued)

Credit risk mitigation techniques

The Bank has policies and processes that allow it to perform a valuation of guarantees. In general, it can be considered that there are no restrictions regarding the acceptance of guarantees. However, prior to acceptance, the impacts on profitability need to be assessed and determine whether it is feasible for the guarantee to be used as a mitigating factor in regulatory calculations of allowance for loan losses and capital requirements.

Most of the concentration of guarantees the Bank has to reduce credit risk, is in the real non-financial guarantees.

As December 31, 2021 the coverage of the guarantees reported by the Bank in standard and intern methodology, which are applicable to commercial loans portfolio is shown below:

Amount of the guarantee [1]	
Coverage	**Standard Methodology**
Eligible financial collateral	$ 9,004
Eligible non-financial collateral	15,614
Personal guarantees	1,579
Insurance first losses Mortgage Portfolio	197

[1]*Amounts correspond to the total value of guarantees.*

The Bank does not have credit derivatives operations at closing of December 31, 2021.

Policies to ensure real guarantees and establish credit reserves

The guarantees covering loans, depending on their type and characteristics they can contribute to improve the level of credit risk and consequently the amount of required reserves. For these purposes two types of guarantees are considered: personal and real.

Guarantees used to improve the credit rating in addition to the specific requirements for the type (personal or real) in general must cover the following:

- The guarantee is granted and incorporated in the form and terms established in the applicable legal provisions and internal policies of the Bank.

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- When a loan is covered by real and personal guarantees: If the real guarantee is granted simultaneously by the same personal guarantor, only one of them can improve the score.
- In syndicated loans with other Credit Institutions, the Bank may agree on the following rights in the corresponding credit agreement: First in order to collect on the guarantee; or the same degree of priority in the order to collect as the other participants, in cases where the guarantee is allocated proportionally among all Institutions involved in the credit.

Credit Risk of financial instruments

Financial situation of each client is evaluated periodically, and at least once a year an exhausting review and risk analysis is performed. These reviews consider the overall credit risk, including financial transactions, derivative instruments and currency transactions.

Credit risk in investment securities - Following is a summary of exposures, credit quality and concentration by risk level of investment securities for the Bank as of December, 31 2021 and 2020:

Financial instrument rating [1]		**Securities held to maturity**	**Securities available for sale**	**Trading securities [5]**	**Total for risk**	**% Concentration**
mxAAA[2]	$	5,136	48,709	45,181	99,026	72.9%
mxAA+[2]		-	-	-	-	0.0%
AA+[3]		-	5,361	-	5,361	4.0%
A-[3]		-	14,222	645	14,867	10.9%
BBB+[3]		-	5,749	10,248	15,997	11.8%
BBB[3]		-	256	-	256	0.2%
Without qualification [4]		-	-	34	34	0.0%
Bank		**5,136**	**74,297**	**56,108**	**135,542**	-
Inmobiliaria Scotia Inverlat		**-**	**-**	**239**	**239**	0.2%
Total December 2021	**$**	**5,136**	**74,297**	**56,374**	**135,780**	**100%**
Concentration	**%**	**3.8%**	**54.7%**	**41.5%**	**100%**	
Total December 2020	**$**	**5,048**	**92,436**	**-**	**97,484**	**100%**
Concentration	**%**	**5.2%**	**94.8%**	**0.0%**	**100%**	

1/ Includes live and repurchases sales operations.
2/ Local S&P Ratings
3/ Global S&P Ratings
4/ Includes stocks and investment funds.
5/ Amounts may vary against those of the Financial Statements, since it includes treasury reports.
6/ Bank amounts may vary from those of the Financial Statements, since it does not include compensation.

(Continued)

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As of December 31, 2021 and on average during the fourth quarter of 2021, the expected loss on the exposure of the securities investment portfolio of the Bank (without considering direct sales and value date sales) was 0.025% y 0.023%, respectively, while the unexpected loss was 0.068% y 0.060%, respectively.

Credit risk in derivative transactions

In addition to the risk measures mentioned earlier for derivative transactions, the Bank quantifies its credit exposures in order to control the use of lines granted to its counterparties for the operation of derivative instruments. This control is carried out by calculating future potential exposure (PFE) at the counterparty level through specialized tools, incorporating mitigating risk elements such as netting agreements, collateral agreements and collateral. There are counterparty risk policies and monitoring of established limits that contemplate the process to be followed in the event of excesses occurring in them.

Following is presented the potential future exposure by counterparty credit risk and concentration by type of counterparty as of December 31, 2021 and 2020:

Type of counterparty	Potential future exposure	Concentration (%)
December 2021		
Financial institutions	4,375	60%
Corporations	2,975	40%
Total maximum exposure	**7,350**	**100%**
December 2020		
Financial institutions	$ 5,221	45%
Corporations	6,510	55%
Total maximum exposure	**$ 11,731**	**100%[1]**

1/ The three mayor exposures by counterparty represent 25% of the total amount.

Methodology for setting credit limits for counterparties and capital allocation

The Bank, by establishing operating policies, defines capital allocation based on business criteria and risk appetite, i.e., customer eligibility criteria and setting maximum exposure limits are defined through the Credit Committees, considering potential future exposure by counterparty as the main risk parameter, estimated according to the methodology approved by the Risk Committee.

It is important to say that before entering into any operation that involves credit risk, a review process of the debtors/counterparties is carried out to evaluate their risk profile and to determine the exposure limit to be accepted by each one.

(Continued)

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Once the limits are approved, they are monitored by the UAIR and reviewed annually by the Credit area or with more frequency in case any potential risk is detected or else the line of business requests it so.

The capital requirement for operations with derivatives is calculated under regulatory methodology, such is the case of the adjusted value for credit valuation or CVA for its acronym in English.

The Bank has the guidelines of BNS to identify the risk of adverse correlation during the credit authorization process for counterparty operations.

The following table shows the gross fair value, the compensation benefit and the offset exposure at December 31, 2021 and 2020.

Type of counterparty	Gross Fair Value *	Offset Exposure
December 2021		
Financial institutions	11,832	2,457
Corporations	1,184	815
Total	**13,016**	**3,272**
December 2020		
Financial institutions	$ 11,968	$ 2,452
Corporations	4,620	4,519
Total	**16,588**	**6,971**

* *It refers to the positive value of market valuation and also represents the current potential exposure*

Also, the deposit guarantees and/or values held by the Bank at December 31, 2021 and 2020 amount to $1,364 and $783, respectively.

Operational risk

The operational risk is a non-discretionary risk, which is defined as the potential loss resulting from internal controls failures or deficiencies, errors in transaction processing or storage or in data transmission as well as adverse administrative or legal resolutions, frauds or theft and includes, among other things, technological risk and legal risk.

The Bank, has implemented policies and procedures enabling them to have an appropriate operational risk management process, which are mentioned in the next page.

(Continued)

Policies for operational risk management

These policies are intended for establishing the principles and management framework to identify, measure, monitor, limit, control and disseminate the operational risks inherent in the day-to-day activities and to promote a risk management culture throughout all the Bank.

Operational Risk Assessment

The Bank has a structured methodology for assessing operational risk, which allows the Bank to identify, assess and mitigate the risk inherent in its processes and business activity, which is applied to the entire structure, the assessment is based on the identification of inherent operational risk, assessing the effectiveness of controls in such risks, on which is determined a level of residual risk from which actions are set to mitigate identified risks.

Manual for operational risk data gathering and classification

These policies define the requirements for reporting the information that supports the measuring processes, as well as the scope of the data gathering process, the functions and responsibilities of the business units for gathering and reporting loss data, as its specific characteristics.

During the period of January – December 2021, the Bank recognized operational risk losses of $401.2, and the operational risks at the end of December 2021, which if materialized will have a negative impact, amount to $266, ($14 correspond to operational risk and $252 to legal risk), the 100% of the exposure has been provisioned.

Operational risk tolerance levels

This is an operational loss management tool that enables each area to know the tolerance levels of losses applicable to each assumed loss event, and serves as an incentive for the improvement of the operational risk management process and the adoption of the necessary action to minimize the risk of future losses.

Key risk indicators (KRI)

This process allows the Bank to establish indicators from process variables, which behavior is related to the level of risk assumed. By tracking each indicator, trends are identified that allow for managing the indicator's values over time. Admissible thresholds are established for each of the selected indicators.

(Continued)

Capital Calculation

The Bank uses the standard alternative method to determine its capital requirements for operational risk.

Estimate of legal risk losses

There is a methodology for estimating expected and unexpected legal risk losses through for estimating probable losses arising from an adverse outcome of trials in process. Such methodology is based on the loss experience of previous years that is used for determining the likelihood of loss associated with the ongoing legal issues through a statistical severity and occurrence analysis.

Technological risk

Technological risk is defined as the potential loss associated with damage, interruption, modification or failure resulting from the use of hardware, software, systems, applications, networks and any other cannel for transmitting information in rendering services to the customers of the Bank.

To manage technological risk, the Bank has the Technological Risk and Cybersecurity Management Policy that describes the policies and general principles to manage and monitor the risks associated with Information Technology and Cybersecurity.

The regular audits performed by an independent and skilled internal audit department include comprehensive reviews of the design, implementation and exploitation of the internal control systems in every business and support area, new products and systems and of the reliability and completeness of data processing operations.

(Continued)

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Appendix 5. Disclosure Form of the Liquidity Coverage Ratio (LCR)
Reporting period: September 2021 - December 2021
Table 1.1 Disclosure Form of the Liquidity Coverage Ratio [4]

		Unweighted amount (average)	**Weighted amount (average)**
COMPUTABLE LIQUID ASSETS			
1	**Total Computable Liquid Assets**	**Non applicable**	**97,063.95**
CASH OUTFLOWS			
2	**Non-guaranteed retail financing**	**156,298.84**	**12,285.81**
3	Stable financing	66,881.56	3,344.08
4	Less stable financing	89,417.27	8,941.73
5	**Wholesale financing not guaranteed**	**200,797.40**	**71,174.03**
6	Operational deposits	75,594.54	18,132.73
7	Non-operational deposits	125,102.26	52,940.69
8	Unsecured debt	100.61	100.61
9	**Guaranteed Wholesale Financing**	**Non applicable**	**605.78**
10	**Additional requirements:**	**284,277.98**	**23,342.42**
11	Outflows related to financial derivative instruments and other guarantee requirements	5,800.34	4,229.04
12	Outflows related to losses on the financing of debt instruments	-	-
13	Credit lines and liquidity	278,477.64	19,113.38
14	**Other contractual financing obligations**	**51.71**	**51.71**
15	**Other contingent financing obligations**	**-**	**-**
16	**TOTAL CASH OUTFLOWS**	**Non applicable**	**107,459.75**
CASH INFLOWS			
17	**Guaranteed cash inflows**	**17,882.18**	**233.45**
18	**Cash inflows for unsecured transactions**	**39,875.38**	**26,214.00**
19	**Other cash inflows**	**12,981.70**	**12,981.70**
20	**TOTAL CASH INFLOWS**	**70,739.26**	**39,429.14**
21	**TOTAL COMPUTABLE LIQUID ASSETS**	**Non applicable**	**96,027.67**
22	**TOTAL NET OF CASH OUTFLOWS**	**Non applicable**	**68,030.60**
23	**LIQUIDITY COVERAGE RATIO**	**Non applicable**	**141.25[5]**

(Continued)

[4] Appendix 5 of the general provisions on liquidity requirements for commercial banking institutions.

[5] Previous figures subject to review of the Central Bank.

.

(a) Calendar days comprised in the quarter that is being disclosed. 92 calendar days
(b) Main causes of the result of the Liquidity Coverage Ratio and the change on its main components.

- **During December 2021, the main changes that impacted the CCL are the following (considering a 30 day time window):**[6]

o Main Cash Outflows:
Outflows due to demand deposits of $37,932 and time deposits of $50,248 outflows derived from the Look Back Approach (considering the facilities issued by Bank of México) and the estimation related to the impact on liquidity due to the possible impairment of the institution's rating in 3 levels for $1,278 and $2,314, respectively, outflows by undrawn credit commitments for $18,986.

o Main Cash inflows:
Cash inflows for loan portfolios for $13,383, call money operations for $20,237 and maturity of securities with a rating lower than 2B for $12,151.

o Liquid assets:
Total liquid assets of $96,431 mainly concentrated in Level 1; $59,519 in debt securities level 1, $28,898 in monetary regulation deposits, deposits in BANXICO and TIIE active auctions, It is worth mentioning that said position does not include BREMS because they are reported as level 1 debt securities, additionally, the available cash for $6,613 and $1,401 in securities level 2.

(c) Changes in the main components of the quarter being reported;

September 2021 – December 2021 (100pb) The liquidity coverage ratio increased 100pb compared to September 2021, mainly due to:

- The bank's traditional funding grew by $31,373, in addition, professional, interbank and external funding grew by $1,198.
- In cash inflows, portfolios decreased by $19,114 and there is a decrease in inflows at 30 days by $8,910, compared to the previous quarter.
- Finally, liquid assets increased by $6,700.

(Continued)

[6] Weighted cash outflows and entries for the next 30 days considering the defined factors in the Provisions on liquidity requirements for credit institutions.

(Millions of Mexican pesos)

(d) *The change of the composition of eligible and computable liquid assets [7];*

Change of liquid assets Q4-2021

	October	November	December
Cash	7%	8%	7%
Deposits in Central Bank	20%	19%	30%
Level 1	71%	71%	61%
Level 2A	2%	2%	2%
Level 2B	0%	0%	0%
Total liquid assets weighted	**100%**	**100%**	**100%**

(e) Concentration of financing sources;

		2021	
Concentration of financing sources	***October***	***November***	***December***
DEPOSIT FUNDING			
Demand deposits	**45%**	**45%**	**43%**
Time deposits			
General public	38%	37%	40%
Money market	0%	0%	1%
Debt securities issued	**6%**	**7%**	**6%**
Global account of deposits without movements	**-%**	**-%**	**-%**
BANK AND OTHER BORROWINGS			
Due on demand	**-%**	**-%**	**-%**
Short-term	**4%**	**4%**	**4%**
Long-term	**7%**	**7%**	**6%**
Total	**100%**	**100%**	**100%**

(Continued)

[7] Computable liquid assets under the guidelines established by the Central Bank.

(Millions of Mexican pesos)

(f) Exposures in derivative financial instruments and possible margin calls;

The Bank negotiates derivative products on behalf of its clients and takes positions on its own account, carries out transactions with derivative financial instruments, for hedging and/or trading purposes in accordance with established policies.

The general objectives of the derivative products that the Bank operates are the following:

- Offer derivative financial instruments in the market, with a specific risk-performance profile, to meet the client's needs according to their risk profile.
- Provide solutions to clients that allow them to fulfill their objectives of reducing, eliminating or modifying the risks assumed respecting the risk profile of each client.
- Carry out negotiation with derivative products with the purpose of generating higher revenues.
- Cover specific products or general risks, as well as optimize the management of funding.

Derivatives traded may be classified as trading, hedging or arbitrage.

The Bank has policies and manuals, with the guidelines and procedures related to the operation and the administration of derivatives. The applicable procedures for the monitoring and mitigation of the risks associated with the derivatives calculate future potential exposure, are the monitoring of the associated collateral, possible margin calls as a conservative measure and to be prepared for a possible increase in liquidity requirements as a result of a possible decline in the Bank's rating, the potential impact on collaterals is calculated periodically.

Potential Future Exposure (December 2021)	
With compensation agreement	$ 2,770
Without compensation agreement	4,580
Possible margin call (December 2021)	
Collateral in Transit	$ 55
Downgrade (December 2021)	
Downgrade 3 levels	$ 2,314

The Bank's exposure to derivative financial instruments at the closing of December 2021 is as follows:

Net Exposure Derivatives	**Closing Position**
Risk factor	
Interest rate	868,950
Exchange rate	175,603
Capital market	17,255
Total	**1,061,808**

(Continued)

(g) Foreign exchange mismatch;

The general policy is to fund the assets with the same currency in which they are granted.

(h) A description of the level of centralization of liquidity management and the interaction between the units of the group;

In the Group there is an area in charge of the liquidity management, Treasury Group, in whose responsibility it is to cover the excess and lack of liquidity of the institution, for which it receives information on a daily basis about the contractual flows that will take place in a current market day, as well as the expected short-term and medium-term liquidity expectations for the main products.

The different areas of the Bank that generate business must inform in advance at least 24-48 hours in the different committees (pipeline) or directly to the Group Treasury, its short, medium and long term strategy, in order to program its funding structure to meet those commitments.

(i) Outflows and entries cash flows that, if appropriate, are not captured in this framework, but which the Institution considers relevant because of its liquidity profile.

It is important to mention that for the calculation of the Liquidity Coverage Ratio, the cash flows of outflows and entries at the contractual level are recorded; however, the Bank daily calculates liquidity gaps considering not only the outflow and entry cash at the contractual level but also considers estimated flows, in addition it extends the schedule of flows to a period of more than 30 days, so that the Bank has the possibility to anticipate and take measures in order to meet the commitments after this period.

Likewise, the Institutions shall at least disclose the information corresponding to the immediately preceding last quarter disclosed, in accordance with the following:

I. Quantitative information:

(a) The concentration limits for the different groups of guarantees received and the main sources of financing;

Within the policies approved by the Bank in terms of liquidity, it is established that the Bank will have a low dependence on the wholesale market, as well as maintaining diversified sources of funding and a low concentration of resources in specific depositors. This diversification is not only made because of the funding sources, but also by timing and variety of products.

(Continued)

(Millions of Mexican pesos)

In addition, the minimum credit quality of the guarantees received is also established. These guarantees may not be less than a level A credit rating.
In addition, the Bank establishes deposit concentration limits with the purpose of ensuring the diversification of its sources of funding among its relevant currencies.

Deposits concentration

Concept	**Limit**
Deposits concentration (MXN)	7,000
Deposits concentration (USD)	100

On the other hand, the Bank monitors potential future exposure (PFE) at the counterparty level for the operation of derivative financial instruments and on the other hand the institution has credit limits to monitor exposure to counterparty credit risk.
Exposure to liquidity risk and financing needs are monitored taking into account possible legal, regulatory and operational limitations; for this, the Bank has a prudent policy of liquidity management risks; In addition, internal limits have been established for liquidity gaps and liquid assets. Liquidity mismatches are shown in the following section.
Exposures to liquidity risk are covered from a funding point of view with local counterparties; which is also in line with the established limits.
Currently, the LCR calculation incorporates positions of the Bank and its subsidiaries.

(b) Integration of balance sheet transactions by maturity and resulting liquidity gaps, including transactions recorded in memorandum accounts.

To have control over the mismatch generated by the nature of the balance between assets and liabilities, the Bank sets limits to its liquidity gaps in different time frames. The Bank also monitors the daily gaps during the next 360 days, in order to have a broader picture of the institution's obligations for more than 30 days; The gaps incorporate active and passive positions of the balance sheets as well as positions outside it. The results at the end of December 2021 and the average of the fourth quarter of 2021 are:

	Closing balance	**Average balance**	**Limit**
30-day cumulative gap (MXN+UDIs+USD)	$ 52,290	50,614	(15,000)
Liquidity Buffer (CCL metric)	$ 96,431	96,028	25,000

(Continued)

The Bank also monitors daily gaps during the next 253 days, in order to have a broader picture of the institution's obligations for more than 30 days.

II. Qualitative information

(a) The way in which liquidity risk is managed in the Institution, considering for that purpose the tolerance to such risk; structure and responsibilities for the management of liquidity risk; internal liquidity reports; the liquidity risk strategy and policies and practices across the business lines and with the Board of Directors;

One of the main objectives of the Bank is to generate value for its shareholders while maintaining the stability and solvency of the organization.

The principles of the Liquidity Risk Management process are:

- Ensure governance and supervision of liquidity risk, including clear guidelines of roles and responsibilities to ensure that monitoring, valuation, accounting, risk measurement, and risk management processes are independently conducted and reported.

- Identify, measure and manage the risk/return ratio, within the limits of tolerance and risk appetite established by the Board of Directors, ensuring that these activities are carried out in a prudent manner.

In the Group there is an area in charge of the liquidity management, Treasury Group, in whose responsibility it is to cover the excess and lack of liquidity of the institution, for which it receives information on a daily basis about the contractual flows that will take place in a current market day, as well as the expected short-term and medium-term liquidity expectations for the main products. On the other hand, the area of Liquidity Risk Management has the responsibility to ensure that the main liquidity indicators are within the approved limits and that are aligned with the risk appetite of the institution, for such purposes the area of Liquidity Risk Management produces periodic information regarding liquid assets and liquidity gaps; in case of any deviation, must notify to the Group Treasury and involved areas in order to correct any deviation that could impact the Bank's structural liquidity.

(Continued)

The internal liquidity reports as well as the policies in place with the purpose of the Integral Liquidity Risk Management are described in later sections.

(b) Financing strategy, including diversification policies, and whether the financing strategy is centralized or decentralized;

The funding strategy is determined by the Group Treasury of the institution but agreed and authorized by the Assets and Liabilities Committee. Where different areas of the Bank participate including business areas.

(c) Liquidity risk mitigation techniques used by the Institution;

The Bank monitors the liquidity risk through different metrics and reports aligned with the risk appetite which include:

- LCR calculation (Liquidity Coverage Ratio)
- NSFR calculation (Net Stable Financing Ratio)
- Computation of liquid assets
- Monitoring the concentration of Wholesale Funding Ratio
- Monitoring Liquidity Gaps
- Monitoring of Deposits Concentration
- Monitoring of Bank Deposit
- Monitoring the Investment Portfolio
- Monitoring of assigned credits as collateral guarantee
- Monitoring of the relationship between funding obtained from the market and obtained from customers (Wholesale Funding Ratio)
- Liquidity Stress Testing
- Liquidity Contingency Financing Plan
- Periodic reports to the Assets and Liabilities Committee of the Bank.
- Periodic reports to the Risk Committee
- Reports to the Board of Directors
- Policies and Manuals related to Liquidity Risk Management
- Contingency Plan for Solvency and Liquidity Risks

In order to mitigate liquidity risk, the Bank has established prudent guidelines, policies and procedures, paying particular attention to:

- Measurement, monitoring and forecasting of commitments involving cash flows for the major currencies managed by the Bank (MXP + UDIs and USD).
- Seek an uniform distribution of cash flows, minimizing liquidity gaps between assets and liabilities, considering the potential impact of renewals, prepayments, withdrawals of deposits, origination of credit and non-payment of credits.
- Maintain diversified funding sources.

(Continued)

- Establish correspondent and Bank borrowings programs to help maintain market access.
- Implement and maintain programs for the issuance of liabilities, and portfolio discount with specialized funds.
- Maintain operational capacity in the liquidation systems established by the Central Bank, considering for this the guarantee requirements and limits established for this purpose.
- Maintain liquid assets reserves to meet operating needs and contingencies of liquidity needs.

The Liquidity Contingency Financing Plan incorporates the corrective actions that the institution would have to start in case of contingency.

(d) An explanation of how stress tests are used; and

In accordance with the current standard stipulated in Appendix12-B of Provisions applicable to Credit Institutions, which requires liquidity exercises in stress scenarios, the Bank periodically tests this in order to ascertain its ability to face adverse scenarios and be able to meet their short-term obligations based on a 30-day survival horizon.

These stress scenarios include, among others, the following assumptions:

- Increase in the expected loss of credit portfolios
- Increase in withdrawal of deposits
- Disposal of lines of credit
- Increase in the Bank's obligations due to degradation of the institution's rating.
- Exit of the main depositors of the Bank
- Loss of Market Value of the Institution's liquid assets.

The institution's liquidity stress tests contemplate different scenarios (i.e. idiosyncratic, systemic and combined) with 3 levels of severity each. The results of the stress tests are presented periodically to the collegiate bodies of the Bank.

Stress scenarios indicate an insight into liquidity gaps, liquid assets, and the institution's survival horizon, this information is critical for decision-making in order to maintain a solid position around liquid assets, as well as its short-term obligations in adverse scenarios. It is important to note that the institution has the Contingency Liquidity Financing Plan which incorporates the corrective actions that the Bank would have to put in place in case of contingency.

(e) A description of contingent financing plans.

Periodically, the Group reviews all aspects of liquidity for the management of potential risks. The Contingency Liquidity Financing Plan is an integral component of this review and provides a frame of reference for determining the actions to be taken in the a crisis event and to be able to reestablish the Bank's financial situation.

(Continued)

The general objectives of the Contingency Financing Plan are:

- Identify potential threats that may seriously affect the liquidity of the Group and Subsidiaries.
- Adhere to the early warning systems described in the Capital and Liquidity Conservation Action Plan.
- Establish action plans to treat liquidity risks that the Group may face during the crisis period.
- Propose actions to ensure that the global Group's liquidity risk is within the tolerance limits approved by the Board of Directors.
- Ensure the availability of personnel, information and sources necessary in the crisis event to allow good decision-making.
- Ensure that information is provided to the Liquidity and Capital Management Committee opportunely.

In case of requiring additional liquidity to the ordinary, the Central Bank may grant financing through any of the following operations or combination of these: (i) simple guaranteed credit operations with monetary regulation deposits or deposits in Dollars that the Financial Group maintains in the Central Bank, or (ii) repurchase/resell agreements on eligible securities. This financing is subject to the procedure indicated in Circular 10/2015 of the Central Bank.

Considering the levels of the Liquidity Coverage Ratio presented during the fourth quarter of 2020, which were greater than 100%, and according to the Provision for credit institutions on liquidity requirements, the Bank during the 3 months of the fourth quarter of 2021, falls in Scenario I (i.e. Scenario I, when the Liquidity Coverage Ratio corresponding to each day of the previous month is at least 100 percent).

Benchmark interest rate reform

A major review and reform of the global benchmark interest rate has been undertaken, with a view to reforming or phasing out certain Interbank Offered Rates (IBOR). As alternatives to IBORs, regulators have recommended that markets begin adopting alternative risk-free rates (RFRs). The Bank has significant exposures to the London Interbank Offered Rate (LIBOR), in particular USD. The reform of IBOR and the associated shift from IBOR to RFR carries systemic and market risks. These risks, such as increased volatility, lack of liquidity, and uneven alternative practices, can affect market participants. In addition to these inherent risks, the Bank is exposed to operational risk arising from the renegotiation of contracts, technological readiness to issue and market products that refer to RFR and conduct with clients and counterparties.

(Continued)

The Bank has established a program (the Transition Program) to support the Bank's transition from LIBOR and other IBOR to RFR. The focus of the Transition Program is to address risks by identifying exposures to various IBORs, evaluating existing contract language when IBORs are no longer published or available, developing the capabilities to issue and market products that reference RFRs, and communicating with clients and counterparties regarding industry developments related to IBOR reform. The Transition Program provides quarterly updates to the Bank's Regulatory Oversight Committee, and annually, to the Risk Committee, on the status of the transition plans to migrate the Bank's IBOR-linked products and update systems and processes. The Transition Program provides regular updates to the Risk Acceptance Committee Mexico (RACM) and the Risk Committee on the status of the transition plans to migrate the Bank's IBOR-linked products and update systems and processes.

On March 5, 2021, the UK Financial Conduct Authority (FCA) confirmed the cease of the publication of most USD LIBOR terms (i.e., Overnight, One-Month, Three-Month, Six-Month LIBOR). and 12-month) immediately following a final release on June 30, 2023. The cut-off date for GBP, JPY, CHF and EUR LIBOR was December 31, 2021. This announcement provides certainty about the future of the various currencies and LIBOR terms and serves to establish the fixed spread adjustment to be used in industry standard backing provisions for cash and derivative products.

While the most used terms for USD LIBOR (1, 3, 6 and 12 months) will continue to be published in their current form until June 30, 2023, the Federal Reserve Board has advised that banks are no longer required to write USD-linked contracts LIBOR after December 31, 2021. Also, the Office of the Superintendent of Financial Institutions on June 22, 2021, stated that Federally Regulated Financial Institutions should stop using LIBOR USD as a reference rate as soon as possible and should not enter into transactions using USD LIBOR as the reference rate after December 31, 2021.

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On July 29, 2021, the Alternative Reference Rate Committee (ARRC) announced its formal recommendation on the CME Group Secured Overnight Financing Rate (SOFR). This recommendation marks the completion of the ARRC's Guided Transition Plan, the series of specific steps established by the ARRC in 2017 to encourage the adoption of SOFR as an alternative to USD LIBOR. On November 16, 2021, the FCA confirmed that it will allow the temporary use of "synthetic" sterling and yen LIBOR rates on all legacy LIBOR contracts, other than cleared derivatives, that have not been modified before December 31, 2021.

The change to the contractual terms of financial assets and financial liabilities with rates subject to IBOR reform is not yet complete. The Bank continues to work to meet industry-wide recommended and regulatory milestones on the cessation of LIBOR and will work with clients and counterparties to issue products based on alternative benchmark rates.

(Continued)

(Millions of Mexican pesos)

Non-derivative financial assets and liabilities

The following table reflects the Bank's IBOR exposure to non-derivative financial assets and liabilities as of December 31, 2021, subject to the reform that has not yet been carried out. transition to alternative reference rates. The Bank's IBOR exposure to financial instruments includes USD LIBOR maturing after June 30, 2023. Six-month and twelve-month CDOR terms ceased publication after May 17, 2021. These exposures could remain outstanding until IBOR ceases and, therefore, will make the transition in the future.

December 31, 2021	Expiration after June 30, 2023 USD LIBOR
Non-derivative financial assets (1)	$ 562
Non-derivative financial liabilities (2)	2,061

(1) Non-derivative financial assets include book values of the credit portfolio, measured at gross amortized cost of the allowance for loan losses.

(2) Non-derivative financial liabilities include carrying amounts of other liabilities.

Derivatives

The following table reflects the Bank's IBOR exposure to derivatives as of December 31, 2021, subject to reform that has yet to transition to alternative benchmark rates. The Bank's IBOR exposure to financial instruments includes USD LIBOR maturing after June 30, 2023. These exposures could remain in effect until IBOR ceases and will therefore transition in the future.

December 31, 2021	Expiration after June 30, 2023 USD LIBOR
Derivatives:	
Single currency interest rate swaps	16,621
Cross currency interest rate swaps (3)	1,661
Options	5,191

(3) In the case of Cross currency interest rate swaps, where both tranches refer to rates directly affected by the benchmark reform, the relevant notional amount of both tranches is shown separately to reflect the risks related to the benchmark reform each type.

Hedging derivatives

The following table reflects the Bank's IBOR exposure to hedging derivatives as of December 31, 2021, subject to the reform that has yet to transition to alternative benchmark rates. The Bank's IBOR exposure to hedging derivatives includes USD LIBOR maturing after June 30, 2023. These exposures will remain in place until IBOR ceases and will therefore transition in the future.

(Continued)

(Millions of Mexican pesos)

December 31, 2021	Maturing after Jun 30, 2023 USD LIBOR
Hedging derivatives	8,503

(26) Regulatory pronouncements recently issued-

Through publication in the Official Gazette dated December 4, 2020, the Banking Commission announced the obligation as of December 1. January 2022, for the adoption of the following FRS issued by the CINIF: B-17 "Determination of fair value", 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 "Income from contracts with customers", D-2 "Costs from contracts with customers" and D-5 "Leases". According to the transitory articles mentioned in the Provisions, and as a practical solution, the credit institutions in the application of the accounting criteria contained in Appendix 33 that are modified, may recognize on the date of initial application, that is, on January 1, 2022, the cumulative effect of the accounting changes. Likewise, the basic (consolidated) quarterly and annual financial statements that are required from the institutions, in accordance with the Provisions corresponding to the period ended December 31, 2022, should not be presented comparatively with each quarter of the year 2021 and for the year ended. on December 31, 2021.

Below is a summary of the FRS adopted:

FRS B-17 “Determination of fair value”-. FRS B-17 must be applied in determining the fair value. This FRS establishes 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 particular FRS. Where applicable, changes in valuation or disclosure should be recognized prospectively. This FRS must be applied, except for what is established in the particular criteria defined in the Single Circular of Banks.

Some specific details for credit institutions are:

Entities may not classify as Level 1 the updated prices for valuation that they determine through the use of internal valuation models.

Additionally, they must disclose:

- The type of virtual asset and/or financial instrument to which an internal valuation model is applicable

- When the volume or level of activity has decreased significantly, they must explain the adjustments that, if applicable, have been applied to the updated price for valuation.

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

FRS C-2 "Investment in financial instruments"- The Accounting Criteria issued by the Banking Commission "Investments in securities" (B-2) is repealed and it is established that FRS C-2 must be applied, in terms of the application of the regulations related to the registration, valuation and presentation in the financial statements consolidated of its investments in financial instruments as follows:

- The classification of financial instruments eliminates the concept of intention to acquire and use an investment in a financial instrument to determine its classification and instead adopts the business model of managing investments in financial instruments to obtain cash flows. With this change, the categories of held-to-maturity and available-for-sale instruments are eliminated. They must determine the business model they will use to manage their investments, classifying them in one of the following three categories: Negotiable financial instruments (IFN), Financial instruments to collect or sell (IFCV), or Financial instruments to collect principal and interest (IFCPI).

- Establishes the valuation of investments in financial instruments also according to the business model, indicating that each model will have its own item in the statement of comprehensive income.

- Adopts the principle that all financial instruments are valued on initial recognition at fair value.

- The valuation results that are recognized before the investment is redeemed or sold will be unrealized and, consequently, will not be subject to capitalization or distribution of dividends among its shareholders, until they are made in cash.

- Credit Institutions, for the identification and recognition of impairment adjustments, must adhere to the provisions of FRS C-2 "Investment in financial instruments", issued by the CINIF.

In the application of FRS C-2, the Banking Commission establishes the following considerations:

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

(Continued)

- Expected credit losses due to impairment of investments in financial instruments as indicated in section 45 of FRS C-2 must be determined in accordance with the provisions of FRS C-16. In this regard, although the Banking Commission does not establish specific methodologies for its determination, it would be expected that the expected credit losses due to the deterioration of securities issued by a counterparty, be consistent with the deterioration determined for loans granted to the same counterparty.

Reclassifications

- Entities that carry out reclassifications of their investments in financial instruments under section 44 of FRS C-2, must report this fact in writing to the Banking Commission within 10 business days following its determination, detailing the change. in the business model that justifies them. Said change must be authorized by the Bank's Risk Committee.

The Institutions must consider the Updated Price for Valuation provided by the Price Provider they have contracted, for the following:

a) Securities registered in the Registry or authorized, registered or regulated in markets recognized by the Banking Commission through general provisions.

b) Derivative Financial Instruments that are listed on national derivatives exchanges or that belong to markets recognized by the Central Bank.

c) Underlying assets and other financial instruments that are part of the Structured Operations or Derivative Packages, in the case of Securities or financial instruments provided for in a) and b).

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

- ***FRS C-9 "Provisions, contingencies and commitments" -*** It leaves without effect Bulletin C-9 "Liabilities, provisions, assets and contingent liabilities and commitments", its scope is reduced by relocating the subject related to the accounting treatment of financial liabilities in the FRS C-19 "Financial instruments payable" and the definition of liability is modified, eliminating the qualifier "virtually unavoidable" and including the term "probable".

- **FRS C-16 “Impairment of financial instruments receivable”-.** When observing the criteria indicated in FRS C-16 "Impairment of financial instruments receivable", credit institutions should not consider the assets derived from the operations referred to in criterion B-6 - Credit Portfolio, issued by the Banking Commission, since the rules for the valuation, presentation and disclosure of such assets are contemplated in the aforementioned criterion, for the rest of the assets the expected losses due to impairment must be recognized considering the following:

  - Establishes that an IFC's impairment losses must be recognized when, as the credit risk has increased, it is concluded that part of the IFC's future cash flows will not be recovered.

  - Proposes that the expected loss be recognized based on 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 the future cash flows of the IFC.

  - In the case of IFCs that accrue interest, it establishes how much and when it is estimated to recover the amount of the IFC, since the recoverable amount must be at its present value.

  - It establishes that, if the IFCPI was not withdrawn due to the renegotiation, it is appropriate to continue valuing the financial instrument using the original effective interest rate, which should only be modified due to the effect of the renegotiation costs.

The Banking Commission establishes certain specifications for the application of FRS C-16 as follows:

- For those accounts receivable other than those related to the credit portfolio, entities must create, where appropriate, an estimate that reflects their degree of irrecoverability, applying the provisions of section 42 of FRS C-16.

- Overdrafts in the checking accounts of the entity's clients, who do not have a line of credit for such purposes, will be classified as overdue debts and the entities must establish simultaneously with said classification an estimate for the total amount of said overdraft, at the time such an event occurs.

(Continued)

- Regarding the operations with to the immediate collection documents not collected referred in criterion B-1 "Cash and cash equivalents", 15 calendar days following the date on which they have been transferred to the item that corresponds to them. originated, they will be classified as overdue debts and their estimate must be constituted simultaneously for the total amount of the same.

- The collection rights acquired by the entity that are in the cases provided for in paragraph 23 of criterion B-6 – Loan portfolio, must be considered as financial instruments receivable with high credit risk (stage 3), and may not be be transferred to another stage for any after effect.

- For purposes of determining the amount of the expected credit loss referred to in paragraph 45.1.1 of 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 periodically in order to recognize the variations in the estimated cash flows to be received.

- The constitution of reserves is established for the total debt and specific terms at the time of applying the practical solutions referred to in paragraph 42.6 of the FRS C-16.

- Additionally, no estimate of expected credit losses will be constituted for balances in favor of taxes, and creditable value added tax.

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

FRS C-19 "Financial instruments payable" - The main characteristics issued for this FRS are shown below:

- The possibility of valuing, subsequent to their initial recognition, certain financial liabilities at their fair value, when certain conditions are met, is established.

- Value long-term liabilities at their present value at initial recognition.

- When restructuring a liability, without the future cash flows to liquidate it being substantially modified, the costs and commissions incurred in this process will affect the amount of the liability and will be amortized over a modified effective interest rate, instead of directly affecting net profit or loss.

(Continued)

- Incorporates what is established in IFRIC 19 “Extinction of Financial Liabilities with Capital Instruments”, an issue that was not included in the existing regulations.

- The effect of extinguishing a financial liability must be presented as a financial result in the unconsolidated statement of income.

- Introduces the concepts of amortized cost to value financial liabilities and the effective interest method, based on the effective interest rate.

The Banking Commission establishes certain specifications for the application of FRS C-19 as follows:

Deposit funding

The characteristics of the issuance of the credit titles issued must be disclosed in notes to the financial statements consolidated: amount; number of titles in circulation; nominal value; discount or premium; rights and form of redemption; guarantee; expiration; interest rate; effective interest rate; amortized amount of the discount or premium in results; amount of issuance expenses and other related expenses and proportion of the authorized amount compared to the amount issued.

Specific aspects to be disclosed are established for the collection of resources whose destination is the assistance of communities, sectors or populations derived from natural catastrophes.

Interbank borrowings and borrowings from other organizations

The total amount of interbank borrowings must be disclosed, as well as that of other entities, indicating for both the type of currency, as well as the maturity terms, guarantees and weighted average rates to which, if applicable, they are subject, identifying the interbank promissory note and interbank borrowings agreed for a term less than or equal to 3 business days.

For lines of credit received by the entity in which not all the authorized amount has been exercised, the unused part of the same should not be presented in the statement of financial position. However, entities must disclose through notes to the financial statements consolidated the unused amount, in accordance with the provisions of criterion A-3, regarding the disclosure of financial information. The letters of credit contracted by the entity are included in the lines referred to in this paragraph.

Restricted application resources received from the Federal Government

The resources that the development banking institutions receive from the Federal Government for a specific purpose, and that according to their economic substance are not considered as stockholders' equity in terms of the provisions of the FRS, will be recognized on the date they are received. in the statement of financial position in the caption of resources of restricted application received from the Federal Government against the corresponding restricted assets according to the nature of said resources.

Initial recognition of a financial instrument payable

The provisions of paragraph 41.1.1 number 4 of FRS C-19 will not apply, regarding using 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 its fair value with effect on the net result referred to in section 42.2 of 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 consolidated as a whole.

- ***FRS C-20 "Financial instruments to collect principal and interest"-*** The main characteristics issued for this FRS are shown below:

    - The way of classifying financial instruments in assets is modified, since the concept of intention to acquire and hold them is discarded to determine their classification, instead the concept of the Administration's business model is adopted.

    - This classification groups financial instruments whose objective is to collect the contractual cash flows and obtain a profit for the contractual interest they generate, having a loan characteristic.

    - They include both financial instruments generated by sales of assets or services, financial leases or loans, as well as those acquired in the market.

      For the purposes of FRS C-20, the assets originating from the operations referred to in criterion B-6, issued by the Banking Commission, should not be included, since the recognition, valuation, presentation and disclosure standards for initial recognition and later of such assets, are contemplated in said criterion. The Banking Commission establishes certain specifications for the application of FRS C-20 as follows:

      Initial recognition of a financial instrument to collect principal and interest

      The provisions of paragraph 41.1.1 number 4 of FRS C-20 will not apply regarding using 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.

(Continued)

Collection rights

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

Fair Value Option

The exception to irrevocably designate in its initial recognition a financial instrument to collect principal and interest, to be subsequently valued at its fair value with effect on the net result referred to in paragraph 41.3.4 of the FRS C-20.

Loans to officers and employees

The interest originated from loans to officers and employees will be presented in the unconsolidated statement of income in the caption of other income (expenses) of the operation.

Loans to retirees

Loans to retirees will be considered as part of the loan portfolio, and must adhere to the guidelines established in criterion B-6, except when, as with active employees, the collection of said loans is carried out in a direct, in which case they will be recorded in accordance with the guidelines applicable to loans to officers and employees.

- **B-7 Foreclosed assets**

The following concepts and acknowledgment of the awarded Assets are required:

Disposal cost: is the incremental direct cost that derives from the sale or exchange of an asset or a group of assets, such as commissions, storage, transfer, insurance, etc., without considering financing costs and income taxes; includes any distribution cost to owners that is the cost of disposal directly attributable to such distribution.

Net realizable value: is the amount estimated by an entity of what it expects to receive, in cash, cash equivalents or in kind, from the sale of an asset less disposal costs.

Assets acquired by judicial adjudication must be registered on the date on which the approving order of the auction by which the adjudication was decreed is enforceable.

(Continued)

Assets that have been received by dation in payment will be registered, for their part, on the date on which the deed of dation is signed, or on which formality has been given to the transfer of ownership of the asset.

The recognition value of the foreclosed assets will be:

a. the lower of the gross book value of the asset that gave rise to the foreclosure, that is, without deducting the allowance for loan losses that has been recognized up to that date, and the net realizable value of the assets received, when the intention of the entity is to sell said assets to recover the amount receivable; either
b. the lower of the gross book value of the asset that gave 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 date on which a foreclosed asset is recorded in the accounting, the value of the asset that gave rise to the foreclosure, as well as the estimate that it may have constituted, must be removed from the statement of financial position of the entities by the total net assets of the aforementioned estimate deducted by the partial payments in kind referred to in criterion B-6 "Loan Portfolio" or the collections or recoveries corresponding to the credits acquired referred in subparagraph d) of the paragraph 3, of the aforementioned criterion B-6.

The difference between the value of the asset that gave rise to the foreclosure, net of estimates, and the value of the determined foreclosed asset, will be recognized in the results of the year as other income (expenses) of the operation.

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

- ***FRS C-10 "Derivative financial instruments and hedging relationships"-*** Its objective is to establish the valuation, presentation and disclosure standards for the initial and subsequent recognition of derivative financial instruments (DFI) and hedging relationships, in the Bank financial statements consolidated.

  This standard focuses on establishing the following specific objectives of a hedging relationship:

  - define and classify the permissible models for recognition of hedging relationships;

  - establish both the conditions that a financial instrument, derivative or non-derivative, must meet to be designated as a hedging instrument, as well as the conditions that the hedged items must meet to be designated in one or more hedging relationships;

(Continued)

- define the concept of alignment of the risk management strategy of an entity to designate a hedging relationship; and

- establish the methods that serve to evaluate the effectiveness of a hedging relationship and the possibility of rebalancing it.

The Banking Commission establishes certain specifications for the application of FRS C-10 as follows:

Adds to the glossary of terms the definitions of Synthetic Operations with derivative financial instruments and Spot Price.

Likewise, institutions must observe the following criteria:

- Credit Derivative Financial Instruments.
- Structured transactions and packages of derivative financial instruments.

It also establishes some clarifications on the recognition and valuation of derivative financial instruments that are listed below:

- Bundles of derivative financial instruments listed on a recognized market as a single financial instrument.
- Derivative financial instruments not listed on recognized markets or exchanges.
- Fair value coverage for interest rate risk of a portion of a portfolio made up of financial assets or financial liabilities (establishes specific conditions for this type of coverage).

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

- ***FRS D-1 "Income from contracts with customers"-*** The main characteristics issued for this FRS are shown below:

  - The transfer of control, basis for the opportunity to recognize income.
  - The identification of the obligations to fulfill in a contract.
  - The allocation of the transaction price among the obligations to be fulfilled based on the independent sale prices.
  - The introduction of the conditional account receivable concept.
  - Recognition of collection rights.
  - Establishes requirements and guidance on how to value the variable consideration and other aspects, when performing the valuation of income.

Appendix 33 establishes the acknowledgment in accordance with the provisions of this FRS for the following:

- Commission income from the granting of guarantees (B-8 Guarantees).
- Income derived from custody or administration services (B-9 Custody and Administration of assets).
- Income from management of Trusts (B-10 Trusts), including the suspension of the accumulation of the income, at the moment in which the debt for these presents 90 or more calendar days of non-payment, and may be accumulated again when the debt pending payment is settled in full.
- Operations carried out by development banking institutions as Financial Agent of the Federal Government (B-10 Trusts).

- ***FRS D-2 "Costs for contracts with customers"-*** The main change in this standard is the separation of the regulations related to the recognition of income from contracts with customers from the regulations corresponding to the recognition of costs for contracts with customers.

<u>Changes in Criterion B-6 "Loan Portfolio"</u>

Among the main changes are:

- The modification in the way of classifying financial instruments in assets, since the concept of intention to acquire and hold them is discarded to determine their classification, instead the concept of business model of administration and preparation is adopted of tests of financial instruments whose purpose is Only to Collect Principal and Interest (SPPI). The need for tests on the determination of these types of instruments is established.

- The Current and Past Due portfolio classification is eliminated, and the measurement of the portfolio is incorporated in three stages

  - **Portfolio with loan risk stage 1.-** These are all those loans whose credit risk has not increased significantly from their initial recognition to the date of the financial statements and that are not in the assumptions to be considered stage 2 or 3 in terms of Appendix 33.

  - **Portfolio with loan risk stage 2.- I**ncludes those loans that have shown a significant increase in credit 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. established or permitted in the Provisions, as well as the provisions of Appendix 33.

  - **Portfolio with loan risk stage 3.-** Those loans with credit deterioration caused by the occurrence of one or more events that have a negative impact on the future cash flows of said loans in accordance with the provisions of Appendix 33.

(Continued)

- The evaluation of straight line origination costs is modified and measurement and valuation methods are incorporated:

  - Amortized Cost: It is the present value of the contractual cash flows receivable from the loan portfolio, plus the transaction costs to be amortized, using the effective interest method and subtracting the allowance for loan losses.

  - Effective Interest Rate: It is the rate that exactly discounts the estimated future cash flows that will be collected during the expected life of a loan in determining its amortized cost. Its calculation must consider the contractual cash flows and the relative transaction costs.

  - Amortized origination costs at the effective rate.

Allowance for loan losses

The Institutions, for the purpose of calculating and establishing the allowance for loan losses, must qualify from their initial recognition the loans of their Credit Portfolio based on the criterion of significant increase in credit risk. This criterion will be applied from the moment of origination and throughout the life of the credit, even when it has been renewed or restructured.

Institutions may choose one of the following approaches:

I. The Standard Approach, which will be applicable to consumer, commercial and mortgage loan portfolios. Institutions that opt for this approach to calculate their allowance reserves must abide by the requirements and procedures contained in Chapter V Bis, which describes the General Standard Methodologies by type of loan portfolio.

   This approach introduces new criteria for the classification and measurement of financial instruments, which are based on the joint consideration of the Business Model (i.e. the way in which the Entity manages its assets to obtain the contractual cash flows) and the analysis of the characteristics of the contractual flows of the instruments (i.e. SPPI test for its acronym in English: "Solely Payments of Principal and Interests"). Likewise, it introduces the concept of "Significant Increase in Risk" for which the reserves must be estimated for the contractual life of the credit. For those who have not presented an increase in risk, the expected loss at 12 months can be estimated. The usual approach to estimate credit losses in collective loans is by estimating the Expected Loss (EP) that uses the parameters of Probability of Default (PI), Loss given default (LGD) and Exposure to Default (EI). This calculation must also include the possible impact on credit risk due to prospective information.

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II. The Internal Approach, which is applicable to all modelable portfolios, using the Internal Reserve Methodologies based on FRS C-16 referred to in Chapter V Bis 1, which refers to two models (Basic and Advanced) . In this case, the Institutions will comply with the requirements contained in the aforementioned chapter and in Appendix 15 Bis."

Internal approach – Basic model, each credit institution will perform its own calculation of the Probability of Default (PI) considering its positions subject to credit risk, and in the case of Loss Given Default (LGD) and Exposure to Default (EI) in accordance with the provisions of the Standard Methodology of the Banking Commission (applicable only to Commercial Loan Portfolio).

Internal approach – Advanced model, in which the Institutions must estimate their own PI, SP and EI. (Applicable to Commercial Credit, Consumer and Home Mortgage Portfolios.

Loans belonging to portfolios that are not included in the relevant Modelable Portfolios will be rated according to the General Standard Methodology.

For the application of the internal approach, two main requirements are established in Appendix 15 Bis, which are:

1) Implementation plan: Which establishes notifying the Banking Commission by free writing, 90 days in advance of the implementation, as well as stipulating within the writing the knowledge and authorization of the Council, it must be signed by the General Director or in his absence, by the legal representative empowered to commit the Institution's resources. Additionally, specific requirements are established for its monitoring and measurement.

2) Request some basic conditions such as having systems and infrastructures that support the applicability of the methodology, annual monitoring of reviews of the implemented models, among others.

Credit institutions must identify and classify the Loan Portfolio, as defined in the General Provisions applicable to credit institutions, by level of credit risk, in accordance with what is indicated below:

a) Stage 1 to loans that do not present evidence of an increase in the level of credit risk, when they do not show any of the assumptions to be classified in this stage in accordance with the corresponding General Standard Rating Methodology, in accordance with this Resolution.

b) Stage 2, when at the time of rating the credits present evidence of an increase in the level of credit risk to be classified in this stage in accordance with the corresponding General Standard Rating Methodology, in accordance with this instrument.

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c) Stage 3 to the credits that at the time of qualification meet the requirements to be classified in Stage 3 in accordance with the General Standard Methodology of qualification that corresponds to them, in accordance with this Resolution.

Credit institutions, in order to constitute the amount of allowance for loan losses, may choose to:

I) They will recognize in stockholders' equity, within the result of previous years, as of January 31, 2022, the initial accumulated financial effect derived from applying the corresponding credit portfolio rating methodology for the first time, and will disclose it in quarterly and annual financial statements consolidated. the relevant data of this operation requested by the Banking Commission.

II) Constitute the amount of allowance for loan losses at 100%, within a period of 12 months, counted from January 31, 2022. The institution will disclose in quarterly and annual financial statements consolidated the relevant data of this operation requested by the Banking Commission.

Management recognized the initial effect of the adoption of the new methodology for calculating reserves within "earnings from previous years" for an amount of $820, which was recorded on January 31, 2022

FRS D-5 "Leases"- The application of this FRS for the first time generates accounting changes in the financial statements consolidated mainly for the lessee and grants different options for its recognition. Among the main changes are mentioned below:

- Eliminates the classification of leases as operating or capitalized for a lessee, and the latter must recognize a lease liability at the present value of the payments and an asset for the right of use for the same amount, of all 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 right-of-use assets and an interest expense on lease liabilities.
- Modifies the presentation of the related cash flows since cash flow outflows from operating activities are reduced, with an increase in cash flow outflows from 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.
- It is established that a lease liability in a sale transaction with a return lease must include both fixed payments and estimated variable payments and includes details of the procedure to be followed in accounting recognition.
- The accounting recognition by the lessor has not changed in relation to the previous FRS D-5, and only some disclosure requirements are added such as the addition of precisions to the disclosures for short-term and low-value leases for which a right-of-use asset was not recognized.

(Continued)

- Incorporates the possibility of using a risk-free rate to discount future lease payments and thus recognize the lease liability of a lessee. Restricts the use of the practical expedient to prevent significant, identifiable non-lease components from being included in the measurement of right-of-use assets and lease liabilities.

In the application of FRS D-5, the Banking Commission establishes the following considerations:

The provisions of this FRS will not apply to credits granted by the entity for financial leasing operations, being the subject of criterion B-6, with the exception of the provisions of paragraph 67 of the Criterion B-6.

For purposes of the provisions of paragraph 42.1.4 subsection c) and subsection d) of FRS D-5, it will be understood that the term of the lease covers most of the economic life of the underlying asset, if the lease covers at least 75% of its useful life. Likewise, the present value of the lease payments is substantially the entire fair value of the underlying asset, if said present value constitutes at least 90% of said fair value.

Credit institutions that act as lessees in leases previously recognized as operating leases must initially recognize the lease liability in accordance with subparagraph a) of paragraph 81.4 of the Financial Information Standard D-5 "Leases", and the asset for right of use, in accordance with the provisions of numeral ii), subsection b) of paragraph 81.4 of FRS D-5.

Operating leases

Accounting for the lessor

For the amount of the amortizations that have not been settled within a period of 30 calendar days following the due date of the payment, the lessor must create the corresponding estimate, suspending the accumulation of income, taking control of it in memorandum accounts in the heading of other registry accounts.

The lessor must present in the statement of financial position the account receivable in the caption of other accounts receivable, and the rental income in the caption of other income (expenses) of the operation in the income statement.

Management recognized the initial effect of the entry into force of this standard, which represents the recognition of a right-of-use asset for $2,484 and $10 USD and a lease liability for $2,484 and $10 USD, which was recorded on January 31, 2022.