**BANCO NACIONAL DE OBRAS Y SERVICIOS PÚBLICOS,
SOCIEDAD NACIONAL DE CRÉDITO,
INSTITUCIÓN DE BANCA DE DESARROLLO**

**FINANCIAL STATEMENTS AND INDEPENDENT
AUDITORS' REPORT
AT DECEMBER 31, 2022**

BANCO NACIONAL DE OBRAS Y SERVICIOS PÚBLICOS,
SOCIEDAD NACIONAL DE CRÉDITO,
INSTITUCIÓN DE BANCA DE DESARROLLO

Financial statements and independent auditors' report for the year ended December 31, 2022

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Independent Auditors' Report
To the Board of Directors of
Banco Nacional de Obras y Servicios Públicos,
Sociedad Nacional de Crédito, Institución de Banca de Desarrollo

Opinion

We have audited the accompanying financial statements of Banco Nacional de Obras y Servicios Públicos, Sociedad Nacional de Crédito, Institución de Banca de Desarrollo (the "Bank" or the "Institution"), which include the Statement of financial position at December 31, 2022, and the statements of comprehensive income, changes in stockholders' equity, and cash flows for the year then ended, as well as the explanatory notes to the financial statements that include a summary of the significant accounting policies

In our opinion, the accompanying financial statements of Banco Nacional de Obras y Servicios Públicos, Sociedad Nacional de Crédito, Institución de Banca de Desarrollo at December 31, 2022 and for the year then ended, have been prepared, in all material respects, in conformity with the accounting criteria set forth by the National Banking and Securities Commission (the "CNBV" or "the Commission") in the General Provisions applicable to Credit Institutions (the "Provisions").

Basis for the opinion

We conducted our audit in accordance with International Auditing Standards ("IAS"). Our responsibilities in accordance with those standards are described hereinbelow in the "Auditor's responsibilities in connection with the audit of the financial statements" section of this report. We are independent of the Bank in conformity with the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (IESBA Code of Ethics), and the ethics requirements that are relevant for our audit in conformity with the Code of Ethics issued by the Instituto Mexicano de Contadores Publicos, A.C. (“IMCP Code of Ethics”), and we have met the other ethics responsibilities, in conformity with the IESBA Code of Ethics and with the IMCP Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis paragraph

We draw attention to Note 4 to the accompanying financial statements, in which the Institution describes the adoption of the new accounting criteria set forth by the CNBV, through amendments to the “Provisions” that became effective, beginning January 1, 2022. Moreover, the “Provisions” set forth that the annual basic financial statements corresponding to the period ended as of December 31, 2022 should not be presented on a comparative basis with the period ending as of December 31, 2021.

Key audit matters

Key audit issues are those matters, which, according to our professional judgment, have been more significant in our audit of the financial statements of the current year. These issues have been addressed in the context of our audit of the overall financial statements, and in forming our opinion on them, and we do not express a separate opinion on these issues.

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Allowance for credit risks ("EPRC" - as per its acronym in Spanish)

The EPRC represents the allocation made against income for the year, which measures that portion of credit whose collection is estimated not to be viable. That allowance involves significant judgments considered by Management for evaluating the creditworthiness of borrowers, by considering credit factors such as the probability of default, severity of the loss, and exposure to default, based on the portfolio rating models established by the CNBV.

It has been considered a key audit matter due to the importance of the factors involved in its calculation and the complexity thereof.

How this issue was treated in our audit:

a) We tested the design of the controls set out by management concerning the classification process and rating of credit, which forms part of the process for the determination of the EPRC.

b) We verified that all the credits included in the loan portfolio have been considered in the calculation of the EPRC.

c) We obtained the determination of the EPRC as of December 31, 2022. Based on selective tests, we reviewed its calculation, as well as the source information used therein.

d) Pursuant to the amendment to the "Provisions" that became effective beginning January 1, 2022, we reviewed and validated the initial financial effect and its book entry.

e) We validated the correct presentation and disclosure in the financial statements and their notes.

The results of our audit procedures described above were reasonable and we did not find any exceptions.

Derivative financial instruments

The determination of fair value of derivative financial instruments is carried out by using valuation techniques that involve significant judgments by Management, as well as the use of information inputs from different market sources.

It has been considered a key audit matter due to the importance of the factors involved in its valuation and the complexity of the standards.

How this issue was treated in our audit:

a) We tested the design of the controls set out by management concerning the control process of derivative financial instruments, in order to assure that all transactions are approved, executed, confirmed, settled, and recorded correctly, in conformity with the applicable standard.

b) We compared the position of the derivative financial instruments generated by the systems involved in the operating process with the accounting records as of fiscal year-end.

c) Pursuant to selective tests, we confirmed the position of derivative financial instruments as of fiscal year-end.

d) Pursuant to selective tests, we evaluated the reasonableness of the inputs used and the determination of the fair value of derivative financial instruments as of fiscal year-end, through information provided by an authorized price vendor.

e) We validated the correct presentation and disclosure in the financial statements and their notes.

The results of our audit procedures described above were reasonable and we did not find any exceptions.

Management's responsibilities and those responsible for the entity's governance in connection with the financial statements

Management is responsible for the preparation and fair presentation of the accompanying financial statements, in conformity with the rules, criteria, general and particular accounting official letters applicable to credit institutions issued by the CNBV, and internal control deemed necessary by management to permit the preparation of financial statements free from material misstatements, due to fraud or error.

In the preparation of financial statements, management is responsible for assessing the Institution ability to continue as a going concern and disclosing, if applicable, the matters relative to the going concern and using the going concern accounting base, unless management has the intent to liquidate the Bank or suspend operations, or there is no other more realistic alternative.

The people responsible for governance of the entity are responsible for supervising the Bank's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance that the overall financial statements are free from material misstatement, whether due to fraud or error, and issue an audit report that contains our opinion. Reasonable assurance is a high level of assurance, but it does not guarantee that an audit performed in conformity with IAS will always detect a material misstatement when it exists. Misstatements can be due to fraud or error and are considered material if it can be reasonably be foreseen that they individually or aggregately influence the economic decisions made by users based on the financial statements.

As part of an audit in conformity with IAS, we apply our professional judgment and maintain an attitude of professional skepticism throughout the audit. We also:

- Identified and assessed the risks of material misstatements of the financial statements, whether due to fraud or error. We designed and performed the audit procedures that deal with those risks and we obtained sufficient and appropriate audit evidence to provide a basis for our opinion. The risk of not detecting a material misstatement due to fraud is higher than in the case of a material misstatement due to error, since the fraud can implicate collusion, falsification, deliberate omissions, intentional misstatements or overriding internal control.

- We obtained knowledge of the internal control relevant to the audit in order to design audit procedures that are appropriate to the circumstances and not for expressing an opinion on the effectiveness of the Bank's internal control.

- We evaluated the appropriateness of the accounting policies applied and the reasonableness of accounting estimates and corresponding information disclosed by management.

- We concluded on the appropriate use by management of the going concern accounting basis, and with the audit evidence obtained, we conclude as to whether or not there is a material misstatement related to the events or conditions that can raise significant doubts about the ability of the Bank to continue as a going concern. If we conclude that there is a material uncertainty, we are required to draw attention in our audit report to the corresponding information disclosed in the financial statements, or we express a modified opinion if those disclosures are not appropriate. Our conclusions are based on the audit evidence obtained up to the date of our audit report. However, future events or conditions can be grounds for the Bank to not have ability to continue as a going concern.

- We evaluated the overall presentation, structure, and content of the financial statements, including the disclosed information and if the financial statements represent the transactions and underlying events in a manner that they achieve a reasonable presentation.

We hereby advise those responsible for the governance of the entity, among other matters, of the scope and time at which the audit was performed and the significant findings of the audit, as well as any significant internal control deficiency that we identified in the course of the audit.

We also provide those in charge of the entity's governance with a statement that we have met the relevant ethical requirements in connection with independence, and communicated all relationships and other matters to them that can be reasonably expected to influence our independence and, if applicable, the corresponding guarantees.

Among the issues that have been the subject of communication with those responsible for the entity's governance, we determine those that have been most significant in the audit of the financial statements of the current period and which are, therefore, the key audit issues. We describe those issues in our audit report unless legal or regulatory provisions prohibit public disclosure of the matter or, in extremely rare circumstances, we determine that an issue should not be reported in our report because it can reasonably be expected that the adverse consequences thereof would exceed the benefits of public interest.

These financial statements have been translated into English solely for the convenience of readers of this language. In all cases, where there are any disagreements between the English and Spanish versions, the Spanish version shall be considered authoritative and controlling.

De la Paz, Costemalle - DFK, S. C.

C.P.A. Juan Carlos Estudillo Delgado
Partner

February 28, 2023

BANCO NACIONAL DE OBRAS Y SERVICIOS PÚBLICOS,
SOCIEDAD NACIONAL DE CRÉDITO,
INSTITUCIÓN DE BANCA DE DESARROLLO

Statement of Financial Position
At December 31, 2022
(Amounts in millions of Mexican pesos)
(Notes 1, 2, 3 and 4)

Asset	Note	
Cash and cash equivalents	7	$ 11,973
Investments in financial instruments	8	
Negotiable financial instruments		3,992
Financial instruments to collect or sell		379,616
Financial instruments to collect principal and interest (securities) (net)		25,060
		408,668
Debtors on repurchase	9	13,006
Derivative financial instruments	10	
Trading purposes		13,937
Designated as hedging		21,779
		35,716
Loan portfolio with stage 1 credit risk		
Commercial credits		
Business or commercial activity		169,986
Financial entities		27,318
Governmental entities		343,970
Consumer lending		-
Housing lending		
Medium class and residential		65
Loans granted as an Agent of the Federal Government		371
Total loan portfolio with stage 1 credit risk		541,710
Loan portfolio with stage 2 credit risk		
Consumer lending		1,309
Housing lending		
Medium class and residential		8
Total loan portfolio with stage 2 credit risk		1,317
Loan portfolio with stage 3 credit risk		
Commercial credits		
Business or commercial activity		13,979
Consumer lending		9
Housing lending		
Medium class and residential		58
Total loan portfolio with stage 3 credit risk		14,046
Loan Portfolio	11	557,073
Deferred items		(3,256)
Allowance for loan losses	12	16,214
Total loan portfolio, net		537,603
Other accounts receivable, net	13	6,607
Foreclosed assets, net	14	-
Advance payments and other assets (net)	15	3,994
Property, furniture and equipment, net	16	511
Assets for rights of use of property, furniture and equipment	20	18
Permanent investments	17	74
Deferred income tax asset (net)	21	6,485
Total assets		$ 1,024,655

Liabilities	Note	
Deposit funding	18	
Term deposit		
Money market		$ 385,219
Debt securities issued		85,293
Global deposit account without transactions		-
		470,512
Interbank loans and loans from other agencies	19	
Immediately due and payable		13,359
Short-term		10,216
Long-term		13,937
		37,512
Creditors under security repurchase agreements	9	379,770
Collateral sold or pledged	9	
Creditors on repurchase		13,006
Derivative financial instruments	10	
Trading purposes		8,299
Designated as hedging		20,322
		28,621
Lease liabilities	20	20
Other accounts payables		
Creditors for settlement of operations		13
Creditors for cash collateral received	10	4,638
Contributions payable	22	3,847
Accrued liabilities and other accounts payables	22	896
		9,394
Employee benefits liability	21	3
Deferred credits and advance payments from customers		1,547
Total liabilities		940,385
Stockholders' Equity	25	
Capital contributions		
Capital stock		21,314
Contributions for future capital increases formalized by its Governing Board		15,562
Premium on subscription of equity contribution certificates		16,622
		53,498
Earned capital		
Capital reserves		5,952
Cumulative results		25,853
Other comprehensive income		
Valuation of financial instruments to collect or sell		176
Gain or loss on valuation of cash flow hedging instruments		11
Remeasurements of defined employee benefits		(1,220)
		30,772
Total controlling interest		84,270
Total non-controlling interest		-
Total stockholders' equity		84,270
Total liabilities and stockholders' equity		$ 1,024,655

Memorandum Accounts

	Note	
Contingent assets and liabilities	24-b	$ 53,935
Credit commitments	24-c	46,804
Assets in trust or mandate	32	
Trusts		429,318
Banobras retiree pension plan administration trust		23,707
Mandates		9,706
Assets in custody or under administration	33	214,624
Collaterals received by the entity	34	13,006
Collateral received and sold or given as security by the entity	34	13,006
Uncollected accrued interest derived from credit portfolio with stage 3 credit risk		2,117
Other registration accounts	35	882,869
		$ 1,689,092

This Statement of financial position was prepared in conformity with the Accounting Criteria for Credit Institutions issued by the National Banking and Securities Commission, in accordance with the provisions of Articles 99, 101, and 102 of the Credit Institutions Activities Act. Observance of those criteria is general and mandatory, and they were applied on a consistent basis, transactions carried out by the Institution and reflected up to the dates referred to above were carried out and valued in accordance with sound practices and the pertinent legal and administrative provisions.

This Statement of financial position will be approved by the Board of Directors, under the responsibility of the Directors who sign them.

The domain name of the web page of the world network known as "Internet" is: https://www.gob.mx/banobras/ and the route whereby the financial information, as referred to by Articles 180 to 184 of the General Provisions applicable to Credit Institutions, can be consulted directly is: https://www.gob.mx/banobras/acciones-y-programas/informacion-financiera

The web site of the National Banking and Securities Commission where information can be consulted which, in compliance with the General Provisions Applicable to Credit Institutions, is provided periodically to that Commission is: https://portafolioinfo.cnbv.gob.mx/PUBLICACIONES/Boletines/Paginas/BD.aspx

The accompanying notes are an integral part of this financial statement.

BANCO NACIONAL DE OBRAS Y SERVICIOS PÚBLICOS,
SOCIEDAD NACIONAL DE CRÉDITO,
INSTITUCIÓN DE BANCA DE DESARROLLO

Statement of comprehensive income
For the year ended December, 31 2022
(Amounts in millions of Mexican pesos)
(Notes 1, 2, 3 and 4)

	Note	
Interest income		$ 89,189
Interest expenses		74,085
Financial margin	28	15,104
Allowance for loan losses	12	2,313
Financial margin adjusted by loan losses		12,791
Commissions and fee collected	30	998
Commissions and fee expense		50
Intermediation Income	29	(854)
Other operating income (expenses)	31	(9,517)
Administration and promotion expenses		3,222
		(12,645)
Operating income		146
Participation of the net result of other entities		-
Income before income tax		146
Income tax	21	(487)
Result of continuing operations		633
Discontinued operations		-
Net income		633
Other Comprehensive Results		
Valuation of financial instruments to collect or sell		(191)
Valuation of derivative financial instruments to hedge cash flows		8
Remeasurement of defined employee benefits		(133)
	26	(316)
COMPRENSIVE INCOME		317
Net result attributable to:		
controlling interest		633
noncontrolling interest		-
Comprehensive income attributable to:		
controlling interest		317
noncontrolling interest		-
		$ 317
Basic profit per ordinary equity contribution certificate		0.03

This Statement of comprehensive income was prepared in conformity with the accounting criteria for Credit Institutions issued by the National Banking and Securities Commission, in accordance with the provisions of Articles 99, 101, and 102 of the Credit Institutions Activities Act. Observance of those criteria is general and mandatory, they were applied on a consistent basis, income and expenditures derived from the transactions carried out by the Institution and reflected during the periods referred to above were carried out and valued in accordance with sound practices and the pertinent legal and administrative provisions.

This Statement of comporehensive income will be approved by the Board of Directors, under the responsibility of the directors who sign them.

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The accompanying notes are an integral part of this financial statement.

BANCO NACIONAL DE OBRAS Y SERVICIOS PÚBLICOS,
SOCIEDAD NACIONAL DE CRÉDITO,
INSTITUCIÓN DE BANCA DE DESARROLLO

Statement of changes in stockholders' equity
For the years ended December 31, 2022
(Amounts in millions of Mexican pesos)
(Notes 1, 2, 3 and 4)

	Capital contributions			Earned capital							
	Capital stock	Contributions for future capital increases formalized by its Governing Board	Premium on subscription of equity contribution certificates	Capital reserves	Accumulated results	Valuation of financial instruments to collect or sell	Valuation of derivative financial instruments to hedge cash flows	Remeasurement of defined employee benefits	Total parent interest	Non controlling interest	Total stockholders' equity
Balances at December 31, 2021	$ 21,314	$ 14,011	$ 16,622	$ 5,718	$ 24,901	$ (1,390)	$ 3	$ (1,631)	$ 79,548	-	$ 79,548
Retrospective adjustments for accounting changes	-	-	-	-	784	1,757	-	-	2,541	-	2,541
Retrospective adjustments for bug fixes	-	-	-	-	(231)	-	-	-	(231)	-	(231)
Adjusted balance as of January 1, 2022	**21,314**	**14,011**	**16,622**	**5,718**	**25,454**	**367**	**3**	**(1,631)**	**81,858**	**-**	**81,858**
MOVEMENTS OF OWNERS											
Capital contributions	-	1,551	-	-	-	-	-	-	1,551	-	1,551
Capitalization of other items of stockholders' equity		-	-	-	-	-	-	-	-	-	-
Total	-	**1,551**	**-**	**-**	**-**	**-**	**-**	**-**	**1,551**	**-**	**1,551**
RESERVES MOVEMENTS		-	-	-	-	-	-	-	-	-	-
Capital reserves	-	-	-	234	(234)	-	-	-	-	-	-
INTEGRAL RESULT:		-	-	-	-	-	-	-	-	-	-
Net income	-	-	-	-	633	-	-	-	633	-	633
Other comprehensive income		-	-	-	-	-	-	-	-	-	-
Valuation of financial instruments to collect or sell	-	-	-	-	-	(191)	-	-	(191)	-	(191)
Valuation of derivative financial instruments to hedge cash flows	-	-	-	-	-	-	8	-	8	-	8
Remeasurement of defined employee benefits	-	-	-	-	-	-	-	411	411	-	411
Participation in ORI of other entities	-	-	-	-	-	-	-	-	-	-	-
Total	**-**	**-**	**-**	**-**	**633**	**(191)**	**8**	**411**	**861**	**-**	**861**
Balances at December 31, 2022	**$ 21,314**	**$ 15,562**	**$ 16,622**	**$ 5,952**	**$ 25,853**	**$ 176**	**$ 11**	**$ (1,220)**	**$ 84,270**	**-**	**$ 84,270**

This statement of changes in stockholders' equity was prepared in conformity with the accounting criteria for Credit Institutions issued by the National Banking and Securities Commission, in accordance with the provisions of Articles 99, 101, and 102 of the Credit Institutions Activities Act. Observance of those criteria is general and mandatory, they were applied on a consistent basis. All the movements in the stockholders' equity accounts derived from the transactions carried out by the Institution during the periods referred to above were carried out and valued in accordance with sound practices and the pertinent legal and administrative provisions.

This statement of changes in stockholders' equity will be approved by the Board of Directors, under the responsibility of the directors who sign them.

The domain name of the web page of the world network known as "Internet" is: https://www.gob.mx/banobras/ and the route whereby the financial information, as referred to by Articles 180 to 184 of the General Provisions applicable to Credit Institutions, can be consulted directly is: https://www.gob.mx/banobras/acciones-y-programas/informacion-financiera

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The accompanying notes are an integral part of this financial statement.

BANCO NACIONAL DE OBRAS Y SERVICIOS PÚBLICOS,
SOCIEDAD NACIONAL DE CRÉDITO,
INSTITUCIÓN DE BANCA DE DESARROLLO

Statement of cash flows
For the year ended December 31, 2022
(Amounts in millions of Mexican pesos)
(Notes 1, 2, 3 and 4)

Operating activities	
Result before income taxes	$ 146
Adjustments for items associated with investing activities:	
Property, furniture and equipment depreciation	7
Other adjustments for items associated with investing activities	26
	33
Adjustments for items associated with financing activities:	
Change in items related to operating activities	
Change in investments in financial instruments (securities) (net)	(15,063)
Change in reports debtors (net)	(8,421)
Change in derivative financial instruments (asset)	(444)
Change in loan portfolio (net)	(45,059)
Change in other accounts receivable (net)	6,521
Change in foreclosed assets (net)	-
Change in other operating assets (net)	876
Change in deposit funding	11,840
Changes in interbank loans and from other organizations	15,094
Change in creditors by reports	22,601
Change in collateral sold or pledged	8,421
Change in derivative financial instruments (liability)	602
Change in other operating liabilities	(460)
Change in hedging derivative financial instruments (of hedged items related to operating activities)	(1,794)
Change in assets/liabilities for employee benefits	(64)
Change in other accounts payable	3,560
Net cash flows from operating activities	(1,790)
Investing activities	
Net cash flows from investing activities	-
Financing activities	
Other charges for financing activities	1,551
Net cash flows from financing activities	1,551
Net decrease in cash and cash equivalents	(60)
Effects of changes in the value of cash and cash equivalents	(26)
Cash and cash equivalents at beginning of period	12,059
Cash and cash equivalents at end of period	$ 11,973

This Statement of cash flows was prepared in conformity with the accounting criteria for Credit Institutions issued by the National Banking and Securities Commission, in accordance with the provisions of Articles 99, 101, and 102 of the Credit Institutions Activities Act. Observance of those criteria is general and mandatory, they were applied on a consistent basis, all the cash inflows and cash outflows derived from the transactions carried out by the Institution and reflected during the periods referred to above were carried out and valued in accordance with sound practices and the pertinent legal and administrative provisions.

This Statement of cash flows will be approved by the Board of Directors, under the responsibility of the directors who subscribe them.

The domain name of the web page of the world network known as "Internet" is: https://www.gob.mx/banobras/ and the route whereby the financial information, as referred to by Articles 180 to 184 of the General Provisions applicable to Credit Institutions, can be consulted directly is: https://www.gob.mx/banobras/acciones-y-programas/informacion-financiera

The web site of the National Banking and Securities Commission where information can be consulted which, in compliance with the General Provisions Applicable to Credit Institutions, is provided periodically to that Commission is: https://portafolioinfo.cnbv.gob.mx/PUBLICACIONES/Boletines/Paginas/BD.aspx

The accompanying notes are an integral part of this financial Statement.

BANCO NACIONAL DE OBRAS Y SERVICIOS PÚBLICOS, SOCIEDAD NACIONAL DE CRÉDITO, INSTITUCIÓN DE BANCA DE DESARROLLO

Notes to the financial statements
At December 31, 2022

Amounts in millions of Mexican pesos except for the amounts in foreign currency, the exchange rates discussed in Note 6 and other specific references

1. Description of Institution

a. Operations

Banco Nacional de Obras y Servicios Publicos, Sociedad Nacional de Crédito, Institución de Banca de Desarrollo (the Institution, the Bank or Banobras) operates in conformity with its own set of internal regulations, the Credits Institutions Act, and the general standards and provisions issued by the Ministry of Finance and Public Credit (SHCP), Central Bank of Mexico (Banxico), and the National Banking and Securities Commission (CNBV). The Institution is located at Avenida Javier Barros Sierra 515, Colonia Lomas de Santa Fe, Mexico City, Postal Code 01219.

In accordance with Articles 2 and 3 of its Internal Regulations, Banobras renders public banking and credit service, subject to the objectives and priorities of the National Development Plan, specifically the National Financing Development Plan. It mainly finances or refinances public or private investment projects in infrastructure and public services, as well assist in providing institutional strength to the Federal, State, and Municipal Governments, in order to contribute to the sustainable development of the country.

Moreover, in order to ensure the efficiency and competitiveness of the sectors under its responsibility in undertaking its corporate purpose, Banobras is authorized, among other aspects, to assist in strengthening the federal pact and free municipality within the scope of its competence. The Bank further promotes and finances the providing of infrastructure, public services, and outfit urban settings, as well as to strengthen states and municipalities institutionally, finance and provide technical assistance to Municipalities to have them draw up, manage, and execute their urban development plans. The Institution also provides technical and financial assistance to improve the use of loan proceeds and development of local administrations, finance the development of communication and transportation sectors and foster joint financing and assistance actions with other credit institutions, development funds, trusts, auxiliary credit organizations, and with public and private sectors.

Article 11 of the Internal Regulations of Banobras sets forth that the Federal Government will be liable at all times for borrowing transactions negotiated by the Bank with domestic individuals or legal entities, and with foreign private, government, and intergovernmental institutions.

The main sources of funds of the Institution are the placement of securities on national and international markets, as well as loans from international financial agencies, bilateral agencies, domestic and foreign banks.

b. Authorization

These Financial statements and notes were approved to be issued by the directors who sign them on February 8, 2023 and will be subsequently submited to the Board of Directors for their approval, who has the authority to modify them.

Within its legal inspection and oversight powers, the CNBV can order the modifications or corrections that it deems necessary in its judgment, for the publication of the financial statements of credit institutions.

2. Basis of presentation and accounting policies

- **Basis of presentation**

- Financial statements

The financial statements at December 31, 2022 have been prepared to comply with the legal provisions to which Banobras is subject as an independent juridical entity.

- **Declaration of Compliance**

The Institution's financial statements are prepared in accordance with the accounting regulatory framework applicable to credit institutions issued by the CNBV. That regulatory framework establishes that the entities will observe the accounting guidelines of the Financial Information Standards (NIF), issued by the Mexican Council of Financial Information Standards, A.C. (CINIF), and other supplementary provisions stipulated in NIF A-8. Supplements that are applicable, except when in the opinion of the CNBV it is necessary to apply a regulation or a specific accounting criterion, taking into consideration that the entities carry out specialized operations. That regulation contemplates specific rules of recognition, valuation, presentation and disclosure.

- **Accounting policies**

The most significant accounting policies and practices applied by Banobras management in the preparation of its financial statements are described below.

a. Functional and reporting currency

The provisions of the CNBV relative to issuing financial statements set forth that the amounts must be presented in millions of Mexican pesos, which correspond to its functional and reporting currency. Consequently, in some items of the financial statements, the accounting records of the Institution show balances lower than the unit (one million of Mexican pesos), which is why they are not presented in those items.

b. Use of judgments and estimates

The preparation of the financial statements requires that management make judgments, estimates, and assumptions that affect the recognized amounts of assets and liabilities, and the disclosure of contingent assets and liabilities at the date of the financial statements, as well as the amounts of revenues, costs, and expenses recorded during the year. Real results can differ from these estimates and assumptions, and those effects are incorporated at the time at which they occur.

Judgments

The judgments used in the application of accounting policies that have the most significant effect on the amounts recognized in the financial statements are included in the following notes:

- Note 8. Investments in financial instruments. With regard to the determination of expected credit losses in investments in financial instruments for collecting principal and interest and in financial instruments held to collect or sell, as well as the factors to evaluate in the absence of observable information.

- Note 10. Derivative financial instruments. With regard to the judgments used in mathematical models for the determination on their fair value including Credit Value Adjustment (CVA) and Debit Value Adjustment (DVA), such as volatility of long a derivatives and discount rates, early redemption rates, and payment nonperformance assumptions of securities.

Assumptions and uncertainty in estimates

Sources of uncertainty when applying the estimates made that have a significant risk of giving rise to an adjustment to the book amounts of assets and liabilities in the following year are included in the following notes:

- Note 12. Allowance for loan losses. With regard to the methodologies used for measuring additional risks considered to be outside of the standard portfolio rating methodologies.

- Note 23. Employee benefits: With regard to the key hypotheses used in the actuarial calculation of defined benefits obligation.

c. Recognition of the impact of inflation on the financial information

During fiscal year 2022, Banobras operated in a non-inflationary environment in the terms of MX FRS B-10 "Impact of inflation", insofar as accumulated inflation of the three prior annual fiscal years did not exceed 26%, as shown below:

		Inflation	
December 31,	Investment Units (UDI)	Of the year	Depreciation Accumulated
2022	7.646804	7.58%	19.50%
2021	7.108233	7.61%	14.16%
2020	6.605597	3.23%	11.31%

Pursuant to the foregoing, the Bank stopped recognizing the impact of inflation on its financial information, beginning January 1, 2008. Consequently, only nonmonetary items included in the Statement of financial position arising from periods prior to December 31, 2007 recognize the impact of inflation from the date of acquisition, contribution or initial recognition up to that date. Such items include property, furniture and equipment, foreclosed assets, intangibles, capital stock, capital reserves, and retained earnings.

d. Recording trades

Trading with securities, repurchase agreements (repos), financial instruments and loans received, among other things, for its own account or for account of third parties are recorded on the date on which they are agreed upon, irrespective of the date of their settlement.

e. Valuation of financial instruments

For the determination of the fair value of positions, both proprietary and third party, in financial instruments in the National Securities Register, or authorized, registered or regulated on markets recognized by the CNBV, pursuant to general provisions, the institution uses prices, rates, and other market information provided thereto by a price vendor authorized by the CNBV.

Any determination of the fair value of instruments other than those set out in the foregoing paragraph is carried out based on MX FRS B-17, Determination of fair value.

f. Foreign currency transactions

- Foreign exchange trading

Foreign exchange trading operations are recorded at contracted prices. When their settlement is agreed upon within a maximum term of two banking days subsequent to the execution date. These trades are recorded as restricted Cash and cash equivalents in reference to purchases, and an outflow of Cash and cash equivalents with regard to sales, against the corresponding clearing account. Gains or losses generated in this type of trading are recognized in the Statement of comprehensive income as part of the caption intermediation income.

- Foreign currency balances

Trades carried out are recorded in the currency in which they are agreed upon. For purposes of presentation of the financial information, foreign currency asset and liability balances are valued in Mexican pesos by using the exchange rate published by Banxico on the banking day subsequent to the date of the financial statements. The effects of variations in exchange rates in these items affect income for the year, such as exchange gains or losses in the Financial margin if they arise from items related to the trades and in Other income (expenses) of the trades in any other case.

- Compensation of assets and liabilities

Banobras compensates financial assets and liabilities when it has a legally enforceable and right in effect to offset and the intent to settle the financial asset and the financial liability on a compensated basis, or realize the financial asset and settle the financial liability simultaneously.

g. Cash and cash equivalents

Cash is represented by legal tender and the foreign currency on hand, deposits in the Bank of Mexico, and deposits in entities of the country and abroad, available for the operation of Banobras in checking accounts and in petty cash at promotional offices. Banobras recognizes and values cash at its fair value, that is, at nominal value, and it recognizes the returns generated by cash items in income for the year as accrued.

Cash equivalents group short-term securities held by Banobras, which present high liquidity and they are easily convertible into cash and are subject to immaterial risks in their value. Banobras recognizes and values cash at its fair value, and it recognizes and the returns generated in income for the year as accrued.

When Banobras acquires currencies as of the value date, on which it agrees upon its settlement on a date subsequent to the execution of the purchase and sell transaction, they are recognized on the date executed as restricted cash and cash equivalents (foreign currency receivables), whereas currencies sold are recognized as an outflow of cash and cash equivalents (foreign currency deliverables). The counterparty is a clearing account, payable or receivable, as appropriate, in conformity with the provisions set out in criterion A-3, Application of general rules.

- Restricted cash and cash equivalents

The following are recognized as restricted cash and cash equivalents: deposits in the Bank of Mexico on which Banobras cannot dispose; financing granted on the interbank market known as “Call Money”, whose term is less or equal to three business days, as well as currencies acquired that are agreed upon to settle on a date subsequent to the execution of the purchase and sell transaction (foreign currency receivables).

Moreover, Banobras recognizes other restricted cash and cash equivalents, which are comprised of, if applicable, the excess of pension plan assets on the Maximum Obligation, which is recognized as a restricted investment, pursuant to the provisions set out in MX FRS D-3, Employee benefits, as well as deposits made in the Federal Treasury for contributions for future capital increases, which are recognized as restricted provided that they are not released and the Bank can dispose of the proceeds.

h. Investments in financial instruments

Banobras classifies its investments in financial instruments based on the business model determined by the Institution, which is based on how financial instruments are managed overall to generate cash flows, and not on a particular intention of holding an instrument.

Each category has specific recording, valuation, and presentation rules in the financial statements, as described below:

- Negotiable financial instruments (NFI)

The business model used by Banobras to manage these financial instruments is to have such instruments generate earnings by selling them. Accordingly, macroeconomic and financial indicators that have a bearing on the market prices of those instruments are monitored in order to identify opportunities to realize earnings and substitute them mainly by primary market issues.

Banobras recognizes the investment in an NFI at its fair value, any transaction cost, if applicable, and the net gain or loss is recognized immediately.

Subsequent to its initial recognition, the difference between the prior carrying value and the current fair value is allocated to the net income or loss for the period, in the caption of Gain or Loss on brokerage.

- Financial instruments to collect or sell (IFCV- as per its acronym in Spanish)

The business model used by Banobras to manage these financial instruments is to hold them to generate a gain through a contractual return on collections of principal and interest or through their sale.

The terms of these instruments foresee cash flows on preestablished dates that correspond only to payments of principal and interest (SPPI) on the amount of the outstanding principal.

Banobras recognizes the investment in IFCV at its fair value. In the event that it has incurred in transaction costs in its acquisition, those costs are recognized as an implicit part of the amortized cost of the IFCV, and they are applied to the net gain or loss in the expected life of the IFCV, based on its effective interest rate.

The effective interest rate is determined based on the provisions of MX FRS C-20. Financial Instruments for Collecting Principal and Interest, on which control is kept of the amortized costs for these purposes.

Subsequent to its initial recognition, Banobras values the IFCV at its fair value. The difference between the prior carrying value and the current fair value is allocated to Other Comprehensive Income (OCI). However, and prior thereto, the following items are allocated to net income or net loss and the value of the IFCV:

a) Interest accrued based on its effective interest rate;
b) Exchange rate fluctuations at the time when they occur; and
c) Decreases in their value that are attributable to an impairment on the expected credit losses of the IFCV.

Banobras evaluates ECLs since the original recognition of the IFCV, which are determined by considering the expected recovery level that corresponds to the distinct IFCVs, and it recognizes the effect of the loss based on the amortized cost.

Given that the fair value of the IFCV already recognizes impairment on ECLs, it does not create an estimate that reduces the fair value of the IFCV; therefore, the effect is recognized in net income or loss, and the value of the IFCV is allocated before recognizing the effect on OCI for valuation at fair value.

Banobras recognizes the ECL in IFCVs pursuant to MX FRS C-16, Impairment of financial instruments receivable.

In the event that there should be favorable changes in the credit quality of the IFCVs that are properly supported based on observable subsequent events, the ECL already recognized is reversed in the period in which those changes occur against the net income or loss for the period, as a reversal of a previously recognized ECL.

- Financial Instruments for Collecting Principal and Interest (IFCPI as per its acronym in Spanish").

The business model used by Banobras to manage these financial instruments is designed to generate income by recovering the principal and collecting interest arising from contractual conditions.

The terms of these instruments foresee cash flows on preestablished dates that correspond only to payments of principal and interest (SPPI) on the amount of the outstanding principal.

The fair value of the IFCPI acquired is quantified in the initial recognition, from which the costs of the transaction are added or reduced, if applicable. The resulting amount represents the gross value at which the IFCPI is initially recognized and it is the basis for applying the effective interest method with the effective interest rate.

The IFCPIs are valued at amortized subsequent to their initial recognition, which includes the increases in accrued effective interest, decreases in the amortization of transaction costs, and decreases in collections of principal and interest.

Banobras evaluates ECLs since the initial recognition of the IFCPIs, which are determined by considering the credit risk stage, the severity of the loss, and the probability of default that corresponds to the distinct IFCPIs, and it recognizes an estimate for those ECLs.

It subsequently recognizes the changes required in the allowance for uncollectibility on the modifications in the expectations of ECLs that arise in every subsequent period.

Banobras recognizes the ECL in IFCPIs pursuant to MX FRS C-16, Impairment of financial instruments receivable.

- Reclassifications of financial instruments between categories

Banobras will reclassify its investments in financial instruments, only in the event of modifying its business model.

These changes will be determined by the Finance and Asset and Liability Management Committee (COFIGAP-as per its acronym in Spanish), and they will be the result of significant external or internal changes for the operations of Banobras. This event should be reported in writing to the CNBV within the 10 business days subsequent to its determination, and explain the change in the business model that justifies it in detail. That change will be authorized by the Comprehensive Risk Management Committee (CAIR-as per its acronym in Spanish).

Once the change is authorized, Banobras will reclassify the financial instruments to the new category.

A reclassification of investments in financial instruments between categories is applied prospectively, beginning as of the date of the change in the business model, without modifying any previously recognized income or loss, such as interest of credit impairment losses.

The classification of an NFI is recognized as follows:

a) If it is reclassified to the category of IFCPI, the fair value of the NFI as of the date of the reclassification becomes the fair value, with which the initial amortized cost is determined of the IFCPI; and

b) If it is reclassified to the category of IFCV, the fair value of the NFI as of the date of reclassification continues to be the fair value of the IFCV. However, as both the interest of the IFCV and the subsequent ECLs must affect net income as they are accrued, it will be necessary to determine the initial amortized cost of the IFV, in accordance with the provisions set forth in MX FRS C-20, Financial Instruments for Collecting Principal and Interest.

If Banobras reclassifies an NFI to the categories of IFCPI or IFCV, there is no original effective interest rate and it must be determined prospectively, based on the fair value of the NFI reclassified to either of the other two categories, beginning as of the date of reclassification which is considered as the date of initial recognition of the IFCIPI or IFCV. The ECLs are recognized beginning as of that date.

The classification of an IFCV is recognized as follows:

a) If it is reclassified to the category of IFCPI, the effect of valuation at fair value recognized in OCI is charged off against the value of the financial instrument, in order to be valued at its amortized cost, as if it had always been recognized on this base and the ECL is returned.

b) If it is reclassified to the category of FNI, the fair value of the IFCV as of the date of reclassification becomes the fair value of the NFI, and the accrued effect of valuation on OCI is recycled to net income or loss for the period as valuation.

If Banobras reclassifies an investment that was an IFPI to the category of NIF or IFCV, its fair value is determined on the date of the reclassification. Any gain or loss arising from the difference between the value at which it is recognized and its fair value is recognized in net income or loss for the period or in OCI, according to the type of instrument involved.

In the event of a reclassification of an IFCPI to the category of IFCV, the following is taken into account:

(1) The interest that has been recognized on the IFCPI based on the effective interest rate continues to be recognized on its amortized cost, by allocating interest calculated on that base to net income or loss, even when the IFCV is valued at fair value through OCI;

(2) The quantification of expected credit losses does not change insofar as the two categories apply the same recognition approach. On the date of reclassification, any allowance for expected credit loss (ECL) that was recognized as part of the amortized cost of the IFCPI is implicit in the valuation at fair value of the IFCV. Any subsequent impairment loss must directly allocate the net income or loss for the period.

- Recording dividends

Stock dividends received are recorded by simultaneously allocating the number of shares of the corresponding issuer and the average unit acquisition cost of the securities, which is equivalent to recording a stock dividend at a zero value. Cash dividends paid by issuers are recorded in income for the year in the caption of interest income.

i. Repurchase trading

In repurchase transactions, the Institution acts as a buyer (borrower) or seller and recognizes an account receivable or account payable, respectively, at the agreed upon value. It is subsequently valued at its amortized cost during the validity of the trade, whereby interest earned and paid is recognized as accrued, according to the effective interest method in the caption of interest income and interest expenses, respectively.

- Cash collateral furnished and received

Cash collateral furnished by Banobras to the buyer (repos) is recognized as a Receivable for cash collateral furnished in the caption of Other receivables, which will accrue interest in benefit of Banobras at the rate agreed upon with the counterparty.

The cash collateral received by Banobras from the buyer (repos) is recognized as a restricted liquid asset in the caption of Cash and cash equivalents, and as a Creditors for cash collateral received in the caption of Other payables, which will accrue interest in benefit of the counterparty at the rate agreed upon with Banobras.

- Collaterals granted and received other than cash

Collateral received by Banobras, acting as a buyer (repos) are recognized in memorandum accounts in the item of Collateral received by the Institution, by following the standards relative to custody operations of criterion B-9 for their valuation.

When the Institution furnishes the collateral that it received as a guarantee (in repurchase transactions) when acting as a buyer, an account payable is recognized which is valued at amortized cost. In this case, the spread between the value of the account payable and the amount of cash received is recognized in income in the caption of Intermediation income. In addition, the Collateral as a guarantee are recognized in memorandum accounts in the caption of Collateral received and sold or furnished as a guarantee by the Institution, following for its valuation the rules related to custody operations of criterion B-9.

Financial instruments furnished as collateral by Banobras, acting as the seller (repos), are reclassified as restricted in the category of investments in financial instruments in which they are recognized, in accordance with the standards of valuation, presentation, and disclosure of MX FRS C-2 or C-20, as appropriate.

- Nonperformance of conditions set forth in the agreement.

With Banobras acting as the buyer (repos) and in the event that the seller (repos) should fail to perform the conditions set forth in the agreement and, therefore, not be able to reclaim such collateral, Banobras recognizes this inflow of the collateral in its Statement of financial position, as set forth in the accounting criteria for lending institutions, in accordance with the collateral received against the receivable recognized.

In the event that Banobras should as the seller (repos) and not perform the conditions set forth in the agreement and, therefore, not be able to reclaim such collateral, it is derecognized in its Statement of financial position (once the risks, benefits, and control are substantially transferred at that time) at its fair value, against the payable recognized.

j. Derivative financial instruments and hedge relationships

Banobras carries out transactions with Derivative Financial Instruments (FDI) for trading purposes and for hedging purposes. The hedge relationships realized by Banobras correspond to:

a) Fair value hedge to hedge exposure to changes in fair value of a recognized asset or liability or of an unrecognized firm commitment, or a component of any of the above items, or an aggregated exposure that is attributable to one or more risks in particular, and affects the net income or loss for the period.

b) Cash flow hedge to cover exposure to the variability of cash flows attributable to a particular risk associated with a recognized asset or liability, a portfolio or a component thereof, or one or various highly probable forecasted transactions or portions thereof, or an aggregate exposure, and it is allocated to Other Comprehensive Income (OCI).

The general risk management strategy set forth in the Comprehensive Risk Management Manual sets forth that Banobras uses derivative instruments to mitigate the risk of lending or borrowing positions of the Statement of financial position to reach institutional objectives and strategies, determined by senior management.

Derivative financial instruments for trading purposes, which Banobras has, strive to provide hedging services to clients, or have asset and liability risk management strategies that cannot access hedge accounting.

Banobras recognizes financial assets and/or liabilities resulting from the rights and obligations set forth in the DFIs initially at their fair value. Generally, the value of the DFI when contracted is zero, which is subsequently modified by the change in its fair value.

The effects of all the risks that affect the DFI are included in the fair value, such as market, liquidity, and credit risks. Moreover, any payment made or received is included in order for the DFI to be a its fair value.

Banobras recognizes the transaction paid, and the net income or loss is allocated when incurred.

Subsequent to their initial recognition, DFIs are valued at their fair value with effects on net income or loss for the period, in the caption of the gain or loss on brokerage, unless they are used as hedging instruments.

- Hedge relationships

The purpose of the accounting of hedge relationships is to have the effect of management activities to primarily hedge the market risks of the Institution reflected in the financial statements of Banobras, by using the financial instruments that manage exchange risk and/or interest rate risk exposures, which can affect comprehensive income (the net gain or loss or OCI).

Designate a hedge relationship between a hedging instrument and a hedged item is optional for Banobras, and it is irrevocable, whereas it is aligned with the risk management strategy already discussed.

Banobras applies hedge accounting to hedge relationships that meet the following criteria:

a) They are aligned with the risk management strategy of the Institution.

b) They only cover ratable items and they only use ratable hedging instruments.

c) They are formally designated by identifying the items to be hedged and hedge instruments.

d) They meet the following effectiveness requirements:

    1. There is an economic relationship between the hedged item and the hedging instrument.

2. The effect of credit risk does not dominate the changes in value of that economic relationship.

3. The counterparties have the economic and operating capacity to meet the commitments agreed upon.

4. The hedge proportion reflects an equilibrium that is consistent with the purpose of the hedge relationship.

e) They are formally documented since their designation as a hedge relationship.

Banobras evaluates if the hedge relationship meets the effectiveness requirements from the time the hedge relationship is created and formally designated and they are followed up on periodically.

The methods for evaluating the effectiveness of hedge relationships capture the relevant characteristics thereof, including how its ineffectiveness arises. Banobras uses two quantitative methods as a benchmark for evaluating the effectiveness of hedge relationships; retrospective method and prospective method, which are described in the Methodology for measuring the hedge effectiveness in the derivative financial instruments of Banobras. The hedge is generally considered effective if effectiveness is in the limits of 80% - 125%.

- Fair value hedges

Banobras recognizes a fair value hedge as follows:

1. The hedging instrument is recognized at its fair value with an effect on the net income or loss for the period.
2. The gain or loss on hedging the hedge risk of the hedged item is recognized by adjusting its carrying value through the net income or loss for the period.
3. In the event that the hedged item should be a financial instrument to Collect or Sell (IFCV- as per its acronym in Spanish), the effect of the hedging gain or loss on the hedged risk of the hedged item is recognized in net income or loss.

The effects indicated are recognized in income in the item of Gain or of the Loss on brokerage.

When the hedged item is a unrecognized firm commitment, the accrued change in the fair value of the hedged item subsequent to its designation, it is recognized as an asset or a liability with an effect on the net income or loss for the period. This asset of liability forms part of the caption in which the item resulting from the firm commitment will be recognized.

- Cash flow hedges

In a cash flow hedge, Banobras recognizes the effective portion of the gains or losses of the DFI in the OCI of the Statement of comprehensive income, and any remaining gain or loss is treated as hedge ineffectiveness, and it is immediately recognized in net income or loss in the caption of Gain or Loss on Brokerage.

Banobras subsequently recognizes the gains or losses that have been accrued in OCI as follows:

- If the forecasted transaction is conducive to a recognition of a nonfinancial asset or a nonfinancial liability (or if the hedged forecasted transaction of a nonfinancial asset or a nonfinancial liability is converted into a firm commitment, to which fair value hedge accounting is applied) the accrued amount in OCI is included directly as an adjustment in the initial recognition of the nonfinancial asset or nonfinancial liability.

- For other cash flow hedges other than those addressed in the foregoing paragraph, the accrued amount in the OCI is recycled to the caption of net income or loss where the effects of the hedged item are being reflected in the same periods in the hedged future cash flows that affect net income or loss.

When there is a loss that is not expected to be recovered in the future in the amount recognized in OCI, the corresponding amount is recycled to net income or loss immediately.

- Rebalancing of the proportion of the hedge relationship

If the hedge relationship stops meeting the hedge effectiveness requirement relative to the hedge proportion, defined by Banobras, but the objective of risk management for the designated hedge relationship to remain unchanged, Banobras adjusts the proportion of the hedge relationship, in order for it to meet the criterion again for its designation as a hedge relationship, in order to maintain its purpose as a hedge. In these cases, Banobras determines ineffectiveness as of that date, and it immediately recognizes it prior to rebalancing.

- Discontinuation of the hedge relationship

Banobras discontinues a hedge relationship only when it no longer meets the criteria for recognizing a hedge relationship as set forth in MX FRS C-10.

The discontinuation of a hedge relationship is applied by Banobras prospectively, beginning as of the date on which the designation criteria thereof fail to be met. The discontinuation of hedge accounting can affect either the total hedge relationship or only a part thereof, in which case Banobras continues hedge accounting for the remaining remainder of the hedge relationship.

Banobras recognizes the discontinuation of a fair value hedge relationship in the following manner:

- If there continues to be a hedged item, this hedged item is treated in accordance with the relative MX FRS as of the date of discontinuation; and

- If the hedge instrument continues to exist, this instrument is considered as a trading DFI.

When the fair value hedge relationship of a hedged item is discontinued, which is a financial asset or liability valued at amortized cost, which hedges the fixed interest rate to convert it into a variable rate, the valuation adjustment added or reduced from the value of the hedged item is amortized to the net income or loss by modifying the effective interest rate of the subsequent periods. In the case of an IFCV, the amortization of the adjustment affects the ORI account in the Statement of Comprehensive Income.

When the accounting of cash flow hedges is discontinued, Banobras recognizes the amount that has accrued in OCI as follows:

- If hedged cash flows are still expected to occur, that amount remains in OCI until they occur.

- If the accrued amount is an unrecoverable loss, the net income or loss is applied immediately; or

- If it is no longer probable that future hedged cash flows will occur, the accrued amount in OCI is immediately recycled to net income or loss.

- Collateral received or furnished

Banobras recognizes cash and cash equivalents collateral or in realizable financial assets, of which the Institution can dispose of as an asset, in accordance with the corresponding MX FRS. It further recognizes a liability in the caption of Other payables, which is valued at fair value to be refunded.

Banobras recognizes collateral furnished in operations carried out outside of organized markets:

- If unrealizable assets were furnished as a restricted asset, which the counterparty cannot dispose of; or

- In a separate account in the caption of Other receivables, when cash and cash equivalents or realizable financial assets or other assets of those which the counterparty can dispose of are delivered. In the case of negotiable financial instruments, the balance of the account is adjusted to their market value at the closing of each period.

k. Clearing accounts

In the case of lending and borrowing operations concerning the buy and sell of currencies, investments in financial instruments, repurchase agreements (repos), derivative financial instruments and funds raised, in which the immediate settlement is not agreed upon immediately or same day value date, Banobras records the amount receivable or payable in clearing accounts (receivables or payables for settlement of operations), while the settlement thereof is not carried out.

Moreover, once these reach their maturity and while the corresponding settlement by Banobras is not received or delivered, according to what was agreed upon in the respective agreement, the amount of the receivable or payable operations in arrears is also recorded in clearing accounts.

The allowance for expected credit losses corresponding to the receivable amounts from the clearing accounts is determined in conformity with the provisions of MX FRS C-16, Impairment of financial instruments receivable.

l. Loan portfolio

- Business model

The business model used by Banobras to manage the loan portfolio of financing granted through the Associate General Directorate of Financing Projects (DGAFP-as per its acronym in Spanish) and the Associate General Directorate of Financing and Technical Assistance to Governments (DGAFATG-as per its acronym in Spanish) is designed to generate income by recovering the principal and collection of interest (cash flows) that are derived from contractual conditions.

The terms of the contracts foresee cash flows on preestablished dates that correspond only to payments of principal and interest on the amount of the outstanding principal.

In addition, Banobras generates credits from consumer and housing loans granted to former employees, at the time at which they acquire this category, which are equally designed to generate income by recovering the principal and collecting interest (cash flow) that are derived from contractual conditions.

Pursuant to the foregoing, the loan portfolio of Banobras is classified as Financial Instruments for Collecting Principal and Interest (IFCPI-as per its acronym in Spanish"), and it is recognized in the terms of criterion B-6, Loan portfolio.

The institution documents the tests carried out to determine that a loan or loan portfolio complies with the assumption that the cash flows from the contract only correspond to payments of principal and interest, or that it must be valued at fair value due to its characteristics, known as SPPI tests (Only Payment of Principal and Interest).

The SPPI test is applied to previously evaluated credits or loan portfolios, whose contractual conditions are amended, as well as new products. Those tests have been authorized by the Internal Loan Committee and communicated in writing to the CNBV in the terms set out therefor.

In the cases in which the loan evaluated is not approved to be classified as IFCPI upon applying the SPPI test, that portfolio will be recognized and valued by Banobras at fair value, in conformity with the provisions in MX FRS C-2, Investments in financial instruments.

Reclassifications

Banobras will reclassify the loan portfolio only in the case in which its business model is modified. Those changes will be determined by the Internal Loan Committee.

Reclassifications will be communicated in writing to the CNBV, within the 10 business days subsequent to their determination, by putting forward the change in the business model in detail that justifies them. Reclassifications will be made prospectively and the previously gains or losses will not be modified.

- Recognition

Banobras quantifies the transaction price that corresponds to the financed net amount, which results from adding or reducing the fees associated with granting the loan from the original amount of the loan. If interest in other items collected in advance should be the matter at issue, that transaction price corresponds to the fair value of the loan portfolio in the initial recognition.

The balance of the loan portfolio corresponds to the amount effectively granted to the borrower, and it is recorded independently from the fees associated with granting the loan, which are recognized as a deferred credit, and they are amortized against income for the year during the life of the credit, in the caption of interest income.

Banobras does not incur transaction costs, nor does it incur premiums or discounts, which, if such is the case, would form part of the fair value of the loan portfolio at the time of the transaction.

One of the main changes to criterion B-6 is the use of the effective interest rate for the recognition of accrued interest, as well as for the amortization of the fees for granting the loan and relative transaction costs, among other things. However, for fiscal 2022, Banobras decided to apply the regulatory facility granted by the CNBV through transition Article eleven, to which the Amending Resolution of the Provisions published in the Official Daily Gazette (DOF) on March 13, 2020 was added on September 23, 2021, which permits Institutions to continue to use the contractual interest rate in the recognition of the accrued interest of its loan portfolio, as well as the straight-line method for the recognition of fees collected and transaction costs.

Expenses not associated with the granting of loans are recognized directly in income for the year as accrued, in the caption that corresponds thereto in accordance with the nature of the expense.

Credit lines

Banobras recognizes fees collected that give rise to a credit line, such as deferred credit, which is amortized against income for the year on a straight line, for the period corresponding to the period granted in the line of credit as interest income. In the event that the line of credit should be cancelled, the outstanding balance is recognized directly in income for the year, on the date on which the line is cancelled.

Financial lease transactions

In financial lease transactions in which Banobras acts as a lessor, the contractual value of the lease transaction is recognized at the inception of the agreement, as well as the non-guaranteed salvage value, which is accrued in benefit of Banobras against the cash outflow. The unaccrued interest income is recognized pursuant to the unpaid balance of the loan against income for the year, in the caption of interest income, in conformity with MX FRS D-5, Leases.

When the lessee decides to have a third party participate in the selling price of the assets, Banobras will recognize the corresponding revenue at the time of the sale, against income for the year as Other income (expenses) of the transaction.

- Categorization of the loan portfolio by credit risk level

Portfolio with stage 1 credit risk

Loans granted and acquired by Banobras are recognized in this category, when days in arrears are presented less than or equal to 30 days.

Transfer to Loan portfolio with stage 2 credit risk

Banobras recognizes loans with days in arrears exceeding 30 days and less than 90 days as loan portfolio with a stage 2 risk, or that do not comply with any of the criteria described in stage 1 or 3.

Transfer to Loan portfolio with stage 3 credit risk

Banobras recognizes loans with days in arrears exceeding or equal to 90 days as a loan portfolio with a stage 3 credit risk.

Moreover, Banobras transfers the unpaid balance of a loan to stage 3 loan portfolio when:

- There is knowledge that the borrower has been declared in bankruptcy proceedings with a merchant, in conformity with the Commercial Bankruptcy Act.

  Without prejudice to the provisions in foregoing paragraph, loans on which payment continues to be received in terms of the provisions of subsection VIII of Article 43 of the Commercial Bankruptcy Act of 2000, as well as loans granted in reliance on Article 75 in connection with subsections II and III of Article 224 of the Law referred to above, are reclassified to the loan with stage 3 credit risk, by valuing the 3 portfolio when they incur in the assumptions provided for in the following paragraph.

- Amortization of non-revolving consumer loans, microcredits and housing loans, referred to in Appendix 16-A described in the CUB, are partially paid, provided that the debts correspond to:

Credits with	Calendar days in areas
Sole payment of principal and interest when due	30 days or more days on capital and interest
Sole payment on principal when due and with periodic payments on interest	90 or more days on interest, or 3 or more days on capital
Partial periodic payments on principal and interest	90 or more days on capital or interest

- Amortizations of credits that are not considered in the above numeral, whose amortizations have not been totally liquidated in the terms originally agreed upon, provided that the debts correspond to:

Credits with	Calendar days in areas
Sole payment of principal and interest when due	30 or more days on capital and interest

Sole payment on principal when due and with periodic payments on interest	90 or more days on interest or 30 more days on capital
Partial periodic payments on principal and interest	90 or more days on capital or interest

In the event of acquisitions of loan portfolios, Banobras considers nonperformances that the borrower has incurred since its inception for the determination of days in arrears and their corresponding transfer to the portfolio with a stage 3 loan risk.

Banobras returns the loans with stage 3 or 2 on which as credit risk with credits in which unpaid balances are settled in full (principal and interest, among other things) to the portfolio with a stage 1 loan risk, or that they are restructured or renewed loans that comply with the sustained payment of the loan.

- Renegotiations

A restructuring is that renegotiation that arises for any amendment to the original terms of the loan, whereas a renewal is that renegotiation in which the balance of a loan is partially or totally settled by the debtor, its joint and several obligors or another person who, due to his or her patrimonial relationship, represents common risks with the debtor, through the increase to the original amount of the loan, or with the proceeds from another loan contracted with the same Institution or with a third party, who through its patrimonial relationship with the latter, represents common risks.

Loans with a stage 2 or stage 3 loan risk that are restructured or renewed are not classified by Banobras in a stage with a lower credit risk, due to the effect of that restructuring or renewal, as long as there is not any evidence of ongoing payments.

Banobras evaluates if a restructured or renewed loan must remain in the same stage of credit risk or be transferred to the immediate subsequent category with a higher credit risk.

- Sustained payment

Banobras credits the sustained payment of the credit when the borrower covers the total amount due and payable of the principal and interest with no delay, with a minimum of three consecutive amortizations of the payment scheme of the loan when amortizations are involved that are less than or equal to 60 days, or the payment of two amortizations in the case of loans with periods between 61 and 90 calendar days, and the payment of an amortization in the case of loans with amortizations that cover periods exceeding 90 calendar days.

In the case of a single payment on principal at maturity, independent from if interest is paid periodically or when it is due a payable, Banobras considers that there is sustained payment of the loan when any of the following assumptions occurs:

- The borrower has covered at least 20% of the original amount of the loan at the time of the restructuring or renewal; or

- It covers the amount of accrued interest in conformity with the restructuring or renewal payment scheme corresponding to a 90-day term and at least that term has elapsed.

Loans that are restructured or renewed on more than one occasion, which have been agreed upon with a single payment on principal at maturity, independent from whether interest is paid periodically or upon maturity, credit the sustained payment of the loan when:

- The borrower covers at least 20% of the outstanding principal as of the date of the new restructuring or renewal.

- It has covered the amount of accrued interest in conformity with the new restructuring or renewal payment scheme corresponding to a 90-day term and at least that term has elapsed.

- Banobras has elements that justify the creditworthiness of the debtor. Such elements in reference to commercial loans are properly documented and incorporated into the loan file.

- Suspension of interest accruals

Banobras suspends the accrual of accrued interest of loan operations at the time at which the outstanding balance of the loan is considered as a stage 3 loan risk, including loans that contractually capitalize interest at the amount of the debt. Moreover, Banobras recognizes the outstanding balance of the fees associated to the loan granted.

Banobras controls interest in memorandum accounts, while the loan is held in the stage 3 credit risk portfolio. Interest or interest income collected is recognized directly in income for the year in the caption of Interest income, thereby reversing the unaccrued interest income in the case of a financial lease.

When interest recorded in memorandum accounts is remitted or written off by Banobras, it is written off in memorandum accounts, without affecting the caption of allowance for loan losses.

The costs and expenses incurred by Banobras for the recovery of the loan portfolio are recognized as an expense in the caption of Other operating income (expenses). In addition, control is kept in memorandum accounts in order to identify them with the loan portfolio that gave rise thereto.

- Foreign currency hedge financing mechanism

<u>Mandate of the Supporting Fund to States and Municipalities (FOAEM, for its acronym in Spanish)</u>

The FOAEM is a mandate whose participants are the Federal Government as the principal and Banobras as the agent, which is intended to hedge the foreign exchange risk. This scheme enables loans granted, supported by foreign proceeds, to be drawn down and paid by borrowers in Mexican pesos and/or in Investment Units (UDIS), thereby assuring payment in foreign currency.

The journal entry of the operations of the FOAEM is recognized at notional value to balance the short position in foreign currency, arising from loans from international financial institutions and the long position in UDIS, arising from the loans with its counterparties in Mexican pesos. For the presentation in financial statements, the net value of both positions valued in local currencies is zero.

Proceeds delivered to the mandate arising from recovered loans are controlled through a credit account known as "Credit balance as Agent of the Mandate of the Supporting Fund to States and Municipalities", provided that the hedging costs and effects of fluctuation of UDIS are recorded in a borrowing account known as "Balance payable as agent of the Mandate of the Supporting Fund to States and Municipalities". For their presentation in the financial statements, the net of both is presented in the caption referred to as balance as an Agent of the Support to States and Municipalities.

The foreign currency component contained in foreign currency denominated loan agreements as a hedge under the scheme described above is closely connected thereto; therefore, it is not required to be separated and valued as an embedded derivative.

m. Allowance for loan losses

Banobras determines the amount of the allowance for loan losses based on the different loan portfolio rating methodologies set out by the CNBV for each type of loan and level of credit risks, pursuant to General Provisions Applicable to Lending Institutions - Single Banking Circular (CUBasper its acronym in Spanish), which include a new calibration of the methodologies with an expected loss approach for the commercial loan portfolio. Additional allowances are recognized as well. Both are recorded by Banobras in income for the year in the period corresponding to their determination, which affect the adjusted Financial Margin for credit risks.

The estimate of expected losses is carried out by considering 3 stages, depending on the level of loan impairment of the loans. Stage 1 is the stage that incorporates financial instruments whose loan risk has not increased significantly since its initial recognition and the estimate is created for a 12-month period. Stage 2 incorporates the instruments in which there is a significant increase in the loan risk since its initial recognition. Finally, stage 3 encompasses the instruments in which there is an objective impairment indicator. Banobras creates preventive estimates for the remaining term to maturity in stages 2 and 3.

The additional estimates recognized by the CNBV are created to cover risks that are not provided for in the different loan portfolio rating methodologies. Prior to their creation and on which prior to creating them, Banobras has reported the following to the CNBV: i) origin of the estimates; ii) methodology for their determination; iii) amount of estimates to be created; and vi) estimated time that will be necessary.

In the case of loans with a stage 3 credit risk in which the capitalization of uncollected accrued interest, which were previously recorded in memorandum accounts, is agreed upon, Banobras creates an estimate for 100% of such interest. The estimate is reversed when there is evidence of sustained payment.

Banobras determines the allowance for expected credit losses corresponding to items directly related to the loan portfolio, such as legal action expenses, by applying the same risk percentage allocated to the associated loan, in conformity with the provisions set out in the CUB.

- Credit lines

In the case of credit lines, Banobras creates the estimates corresponding to the balance not drawn down, in conformity with the provisions set out in the CUB.

- Loan portfolio write-offs

Banobras periodically evaluates if a loan with a stage 3 credit risk must remain in the Statement of financial position, or be written off. In any case, there must be evidence of the formal collection procedures that have been exercised, as well as the elements that evidence the practical impossibility of recovering the loan, in accordance with the internal policies of Banobras set forth in the Loan Manual. If appliable, the loan balance is written off against the allowance for loan losses. When the loan to be written off exceeds the balance of the associated allowance, the allowance is increased up to the amount of the difference before writing off that loan.

Any recovery arising from loans previously written off is recognized in income for the year, in the caption of the allowance for loan losses, unless the recoveries are derived from payments in kind, which are treated in terms of criterion B-7, Assets acquired through foreclosure

- Reductions in debt, remissions, rebates, and discounts on the portfolio

Reductions in debt, remissions, rebates, and discounts arising from an increase in credit risk are recorded and charged to the allowance for loan losses. In the event that the amount thereof should exceed the balance of the estimate associated with the loan, Banobras previously creates estimates up to the amount of the difference.

The discounts and rebates that are not associated with the increase in credit risk are reduced from the income that gave rise thereto.

- Reversal of surplus of the allowance for loan risks

When the balance of the allowance for loan losses exceeds the amount required for the rating process and/or additional reserves, the spread is cancelled in the period in which those excesses occur, against income for the year, thereby allocating the same caption of the allowance for loan risks that gave rise thereto.

n. Other receivables

Other receivables of Banobras consist primarily of items associated to lending operations, loans, and other personnel debts, as well as the recoverable tax balance.

Banobras values other receivables in the amount that it is entitled to collect, which is normally at its nominal value.

After the initial recognition of an account receivable, any impairment in the value thereof is recognized as an expense, pursuant to the provisions set out in MX FRS C-16.

o. Permanent investments

Permanent investments that Banobras has consist mainly of venture capital shares, auxiliary banking organizations, and related services, as well as for certificates of capital contribution of development banking institutions.

By not having control, joint control, nor significant influence, nor the intention to sell them, Banobras classifies its permanent investments as Other permanent investments.

Banobras recognizes other permanent investments initially and subsequently at their cost of acquisition, which was restated up to 2007, pursuant to the standard in effect as of that date.

Banobras recognizes dividends from other permanent investments in the Statement of comprehensive income for the period.

- Changes in percentage of equity

The increases in the percentage of equity of Banobras in the entity in which it has other permanent investments are recognized at their acquisition cost. However, if those increases are not derived from new acquisitions or contributions since they are the result of movements of other stockholders, they have an acquisition cost with a zero balance; therefore, they are not recognized by Banobras.

The downward movements of the percentage of equity of Banobras in the entity in which it has other permanent investments, either due to the partial sale of the permanent investment, or as a consequence of movements of other owners, usually affect the value of the permanent investment. In such cases, Banobras recognizes these effects in income or loss of the period in which they occur.

p. Property, furniture and equipment

Property, furniture and equipment, (including components) are tangible assets that are intended to be used in benefit of Banobras or services rendered by Banobras to its clients.

The property, furniture and equipment of Banobras is comprised of: i) Land; ii) Constructions highlighted by the La Fe Corporate Building, as well as proprietary real property of Banobras in which it carries out its operations in some of the states of the Republic of Mexico; iii) Furniture; iv) Computer Equipment; v) Transportation Equipment; vi) Other Property, Furniture and Equipment, highlighted by the real property such as the “Batan” Ecological Park, and the “Paz Moreno” Children's Development Center (CENDI Banobras).

- Initial recognition

Banobras recognizes private and real property as an asset in the caption of property, furniture and equipment when the future economic benefits attributable to the asset will flow toward Banobras, by using reasonable, sustainable assumptions that represent the best estimate made by management of the set of economic conditions that will exist throughout the useful life thereof. In addition, the acquisition cost, also known as the original amount of the Investment of the component and/or item of the asset is valued reliably to comply with the valuation postulate.

Banobras values and recognizes the components and/or items as part of property, furniture and equipment at their acquisition cost.

Acquisition costs of the components and/or items of property, furniture and equipment of Banobras consist of: i) their acquisition price, including fees, taxes, and import expenses and nonrecoverable indirect taxes, as well as professional fees, insurance, storage and other costs and expenses that are attributed to the acquisition, after deducting any discount or rebate of the price; ii) all necessary costs directly attributable for the location of the component and/or item in the place and in the conditions necessary for it to be able to operate in the manner contemplated by management; an iii) the initial estimate of the costs related to an obligation associated with the retirement of the components and/or items, when Banobras is under obligation to acquire the component and/or item, or as a consequence of have used them in a determined period.

- Adaptations and improvements

In the cases in which a modification is required to be made to the original asset, Banobras recognizes those modifications as adaptations and improvements, as an asset separate from the acquisition cost of the original asset, provided that the initial recognition conditions set out are met.

- Subsequent recognition

Subsequent to its initial recognition, Banobras recognizes the components and/or items of property, furniture and equipment at their acquisition cost, less accumulated depreciation and the accrued amount of impairment losses to determine the net carrying value thereof.
Banobras calculates depreciation through the straight-line method on the book value of assets based on annual rates that reflect the useful life of assets.

- Disposition

Banobras retires the net carrying value of an include property, furniture and equipment when: i) it disposes the foregoing, that is, when a sale is made whose management has been delegated to the INDEP, or due to any loss or even by donation; or ii) when future economic benefits are not expected to be obtained from its use or disposition. Banobras observes the provisions of MX FRS B-11 in both cases, Disposition of long-lived assets and discontinued operations.

At the time of the retirement of a component and/or item of property, furniture and equipment due to a sale, Banobras writes off its net carrying value and recognizes the gain or loss obtained in income for the period, which the Institution determines as the difference between the fair value of the consideration received which, in the event that it should be obtained by disposition and the net carrying value plus removal and disposition costs, considering the costs incurred in the sale, including those considerations paid to the INDEP.

When property, furniture and equipment are retired due to any casualty, and they have not been totally depreciated, Banobras recognizes the effects of the casualty losses in income for the period, as well as recoveries for indemnifications made by the insurance companies.

When the item of property, furniture and equipment are totally depreciated and they stop being useful for Banobras, they must be retired from the Statement of financial position, by writing off the acquisition cost, accumulated depreciation and their corresponding restatement. However, they are recorded in memorandum accounts at a value of one peso for tax purposes, pursuant to the provisions set out in Article 31 of the Income Tax Law.

q. Leases acting as a lessee

Upon inception of the agreement, Banobras evaluates if the agreement is a lease or if it contains one for each potentially separable component thereof. An agreement is or contains a lease in if the agreement transfers the right-of-use of an asset is transferred for a determined period of time in exchange for a consideration. Otherwise, a service contract is involved. Banobras revalues if an agreement is a lease or if it contains one, only if the terms and conditions thereof are changed.

- Short-term and low-value leases

Banobras has decided not to apply the requirements for lessees of section 41 of MX FRS D-5, Leases: i) short-term leases (up to 12 months), provided that they do not contain a purchase option; and ii) leases in which the underlying asset is of low value. In both cases, Banobras recognizes the associated payments as an expense when they are accrued over the lease term, in the caption of administrative and promotional expenses.

For purposes of the foregoing paragraph, an underlying asset is considered low value when its value, in reliance on Article 42 of the Law of Acquisitions, Leases, and Public Sector Services, does not exceed the authorized maximum amount for the direct Award, set forth in the Federal Expenditure Budget of the tax year involved. The maximum amount of the Award amounted to $0.57 for tax year 2022.

Banobras evaluates the value of the underlying asset based on the value of the asset when it is new, independently from the duration of the asset that is being leased. A lease of an underlying asset that does not meet the lease requirements of a low value asset if the nature of the asset is such that, when it is new, the asset is not usually of low value.

An underlying asset can be of low value only if Banobras can benefit from the use of the underlying asset itself or together with other resources that are easily available and the underlying asset is not highly dependent or is highly interrelated with other assets.

In the cases in which the lease is neither short-term nor does it have a low value asset as the underlying asset, Banobras recognizes a right-of-use asset and a lease liability on the inception date of the lease.

- Right-of-use asset

The right-of-use asset is initially valued at cost, which includes: i) the amount of the initial valuation of the lease liability; ii) lease payments made before or on the inception date of the lease, less the lease incentives received; iii) the initial direct costs incurred by Banobras; and iv) an estimate of the costs to be incurred by Banobras upon retiring the underlying asset, restore the place in which the underlying asset is located or restore the underlying asset to the condition required by the lease terms and conditions, by applying MX FRS C-18, Obligations associated with the retirement of property, plant and equipment.

In the subsequent recognition, the right-of-use asset is subsequently valued at its cost less accumulated depreciation or amortization and accumulated impairment losses of value and the adjustments for any remeasurement of the lease liability.

Banobras applies the depreciation requirements of MX FRS C-6, Property plant and equipment or amortization of the MX FRS C-8, Intangible assets, depending upon the nature of the underlying asset, upon depreciating or amortizing the right-of-use asset.

- Lease liability

On the inception date of the lease, Banobras values the lease liability at the present value of future lease payments to be made. Future payments are discounted by using the implicit interest rate in the lease if it can be easily determined. Otherwise, Banobras uses the risk free rate determined in reference to the lease term.

The initial valuation of the lease liability includes the following payments for the right to use the underlying asset during the lease term, which have not been made as of that date: i) fixed payments (including essentially fixed payments), less any lease incentive receivable; ii) payments that depend on an index or a rate, initially valued by using the index or rate on the lease inception date; iii) amounts that Banobras expects to pay as guarantees of salvage value; iv) the exercise price of a call option if Banobras is reasonably certain of exercising that option; and v) penalty payments for termination of the lease, if the lease term reflects that Banobras will exercise an option to terminate the lease.

After the lease inception date, Banobras values a lease liability in the following way: i) by adding accrued interest to the lease liability; ii) by reducing the liability to reflect the lease payments made; iii) by remeasuring the liability to reflect revaluations or modifications of the lease, and also to reflect essentially future payments that have been modified.

Unless the costs are capitalized in another asset based on other applicable MX FRS, Banobras recognizes the interest accrued on the lease liability in net income or loss, and the variable lease payment not included in the valuation of the lease liability in the period in which it is accrued.

- Amendments to a contract

Banobras recognizes an amendment to the agreement as a separate lease, only if the amendment increases the scope of the lease by adding the right to use one or more underlying assets and the consideration for the lease is increase in an amount in accordance with the price independent of the increase in the scope, as well as any appropriate adjustment at that price to reflect the circumstances of the specific contract.

r. Foreclosed assets

Assets foreclosed by Banobras consist of private and real property acquired mainly through court ordered distribution of the recovery in kind of the commercial loan portfolio, housing and consumer portfolio (former employees).

Banobras records assets acquired through judicial foreclosure on the date on which the order for approval becomes final and immediately available for execution of the auction, whereas the assets that are received through a dation in payment are recorded on the date on which the dation in payment deed, or in that which has formalized the conveyance of the ownership of the asset to Banobras.

The value of recognition of assets acquired through foreclosure is determined by Banobras pursuant to the following:

- When the intention of Banobras is to sell those assets to recover the amount receivable, the value will be the lower between the gross book value of the asset that gave rise to the foreclosure, without deducting the allowance for loan losses that has been recognized up to that date, and the net realization value of the assets received; or

- When the intention of Banobras is to use the foreclosed asset for its activities, the value will be the lower between the gross book value of the asset that gave rise to the foreclosure and the fair value of the asset received.

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 allowance that has been created, if applicable, that asset is retired by Banobras from the Statement of financial position in the total of the net of the allowance discussed above, deducted by the partial payments in kind referred to in criterion B-6, Loan portfolio.

The difference between the value of the asset that gave rise to the foreclosure, net of allowances, and the value determined of the foreclosed asset, is recognized by Banobras in income for the year as other operating income (expenses).

Banobras considers foreclosed assets as restricted assets, and managing its sale has been delegated to the Institute for Returning Stolen Wealth to the People (INDEP); therefore, neither can it dispose of nor make use of such assets, which remain in the same caption of foreclosed assets.

At the time when assets acquired through judicial proceedings are sold, the difference between the selling price and carrying value of the asset acquired through judicial proceedings, net of estimates, is recognized by Banobras in the income for the year as other operating income (expenses). Considering the previous costs incurred in the sale carried out by the INDEP.

Banobras recognizes the provisions for recognizing impairment indicators for potential losses of value quarterly, due to the time elapsed of the foreclosed assets, by applying the percentage of provision contained in the tables of subsection I. Provisions for collection rights and Private property and subsection III. Provisions for Real Property of Art. 132 of the CUB are recognized in income for the year as other operating income (expenses).

s. Other assets

The Institution recognizes the assets allocated to create an irrevocable trust fund at their fair value to cover the obligations arising from the labor rights of its employees at retirement. These assets are increased by the contributions made to the fund and the expected yields on the plan assets, determined based on an actuarial calculation performed by independent appraisers, and they are reduced by retirements or divestitures therefrom (Note 2u and 23). The Statement of financial position of assets is presented, net of the corresponding labor obligations in the Statement of financial position. When labor obligations are lower than the asset recognized, the resulting balance is presented in the caption of Other assets. Otherwise, the balance is presented in the caption of Other accounts payables.

Prepaid expenses to service providers are also recognized in this caption, as well as prepaid expenses to supervision agencies that are amortized in the period, and tax recoverable balances.

t. Financial Liabilities

Financial Instruments Payable (FIP) of Banobras mainly include:

- Financing obtained on the interbank market referred to as “Call Money”, whose term is less than or equal to three business days.

- Financial instruments payable issued by Banobras as part of traditional deposits, comprised of issues of Promissory Notes with yields payable at maturity (PRLV-as per its acronym in Spanish), term deposits, Certificates of Deposits (CEDES), and Securities Exchange Certificates (CEBURES).

- Interbank loans and loans from other agencies, among which there are bilateral loans with commercial banking and development banking, and multilateral loans with the Interamerican Development Bank (IBD) International Bank for Reconstruction and Development (IBRD).

Banobras also recognizes trade accounts payable derived from a contract between the parties and other payables, pursuant to legal provisions, such as tax withholdings payable, as well as taxes, fees and public use taxes payable by Banobras, other than taxes on earnings, whose amount and due date are defined by law.

- Initial and subsequent recognition

Banobras recognizes an FIP initially by applying the following steps:

1. Transaction costs are added or subtracted from the transaction price for the services or financing received, as well as other prepaid items, such as fees and interest;

2. The future value of estimated cash flows, which will be paid on principal and contractual interest, is determined during the remaining term of the FIP or in a shorter term, if there is a probability of prepayment or another circumstance that requires that a shorter term be used;

3. The effective interest rate of the FIP is determined which is calculated by considering the relationship between the amounts determined in the two foregoing paragraphs; and

4. The amount determined in numeral i. is the fair value of the FIP at which it is recognized initially. This amount is the base for applying the effective interest with the effective interest rate, that is, it is the base for the calculation of the amortized cost of the FIP in the subsequent recognition.

Subsequent to its initial recognition, Banobras values FIPs at amortized cost, and Financial Margin was allocated, which includes, among other things, the increases in accrued effective interest and decreases in payments on principal and interest and, if applicable, the effect of any remission that has been obtained on the amount payable.

When the FIP has an interest rate that is constantly modified (for example, monthly, quarterly or semi-annually), and the amortization of transaction costs is immaterial, Banobras does not recalculate the effective interest rate, and it continues to amortize the transaction costs based on the initial effective interest rate, whereas the effects of the variation in the interest rate is recognized in net income or loss for the period in which that variation occurs.

Trade accounts payable

The initial recognition of trade accounts payable has the transaction price of the assets and serviced as a point of departure, upon considering the transaction that gave rise to them as accrued. In addition to the transaction price, other amounts payable arising from the transaction are also included, if applicable, and any other amount that the supplier has shifted to Banobras for account of third parties.

Financing in trade accounts payable is considered not to exist when the term of payment is generally used for commercial operations. In such a case, the initial valuation corresponds to the transaction price of the goods and services received, and Banobras does not determine their amortized cost. For practical purposes, Banobras considers that there is no financing when the term of payment does not exceed one year. However, circumstances and method of payment are evaluated to confirm this fact.

In some cases, services are being received continuously and they are not paid until the supplier thereof invoices the service. In these cases, Banobras recognizes the amount of the corresponding liability as accrued, based on the best estimate of the consideration payable.

- Derecognition of an FIP

Banobras derecognizes a financial liability (or a part thereof) from its statements of financial position only when that liability is extinguished, since it has met the obligation, that is, the obligation was transferred, liquidated or it expired.

An FIP (or a part thereof) is extinguished when Banobras settles the liability by paying the creditor, either in cash or with other financial or nonfinancial assets, or it is legally released from its responsibility relative to the financial liability, either by the creditor, through a remission, or through a legal proceeding in which the liability is declared nonexistent.

The difference between the carrying value of an FIP (or a part thereof) derecognized and the carrying value of the assets delivered is recognized in net income or loss for the period.

- Early redemption of an FIP

In the case of an early redemption of an FIP, Banobras recognizes the amount of the unamortized transaction costs in net income or loss for the year, either in their entirety or in proportion to the FIPs that were redeemed early. If an additional amount had to be paid to the holders thereof order to redeem, it is recognized in income for the period.

u. Employee benefits

- Business model

The business model of Trust 2065 “Banobras Retiree Pension Plans” and Trust 2160 “Defined Contribution Pension Plan” is oriented toward the investment of the proceeds that comprise the Trust Assets, by purchasing financial instruments, including fix income instruments that pay principal and interest, and variable income instruments that pay dividends, cash distributions or capital reimbursements.

The pension fund assets can be sold at any time, depending upon liquidity needs, changes in the investment regime, changes in the degree of investment, and changes in labor rights or obligations. Variable income instruments are acquired by the trust with a view of obtaining ga gain on the acquisition and sale price spread. Pursuant to the foregoing, plan assets of pensions are classified as Negotiable financial instruments (NFIs),

The investment of the proceeds is subject to the investment policies that are drafted and approved by the Technical Committee of each Trust and the investment regime approved by that Committee, in conformity with the Income Tax Law (LISR-as per its acronym in Spanish) and its Regulations (RISR-as per its acronym in Spanish), the applicable legislation and, specifically, the Investment Regime in Pension and Retirement Trusts contained in the General Provisions applicable to Lending Institutions, issued by the National Banking and Securities Commission (Single Banking Circular), as well as the General Work Conditions (CGT-as per its acronym in Spanish).

- Direct short-term benefits

Direct short-term employee benefits are recognized in income for the period in which services rendered are accrued. A liability is recognized on the amount expected to be paid if the Institution has a legal or assumed obligation, as the result of prior services rendered and the obligation can be estimated reasonably.

- **Direct long-term benefits**

The net obligation of the Institution in connection with direct long-term benefits except for deferred PTU (Note 21) expected to be paid by the Institution after twelve months from the date of the most recent Statement of financial position presented is the amount of future benefits that employees have gained in exchange for their service in the current fiscal year and in prior years. This benefit is discounted to determine its fair value.

- **Termination benefits**

A liability is recognized for termination benefits and a cost or expense when the Institution does not have a different realistic alternative than that of dealing with the payments, and it cannot withdraw the offer of those benefits, or when it meets the conditions for recognizing the costs of restructuring, whichever occurs first. If they are not expected to be liquidated within the 12 months subsequent to fiscal year end, then they are discounted to determine their fair value.

Defined benefit plan

The Institution has established a defined pension plan that covers retirement pensions, seniority premiums, and legal severance payments to which employees are entitled, in accordance with the Federal Labor Act, as well as the obligations relative to postretirement benefits, such as medical services, among other things. The plan is closed and it was in effect up to September 1, 2009.

The calculation of obligations for defined benefit plans is performed annually by actuaries, by using the projected unit credit method. The labor cost of current service, which represents the cost of the period of employee benefits for having completed one more year of years of service based on the benefit plans, is recognized in management and promotional expenses. The Institution determines net interest expense (income) on the net liability (asset) for defined benefits of the period, by multiplying the discount rate used to measure the defined benefit obligation (DBO) for the net liability (asset) defined at the beginning of the annual period reported, taking into account the changes in the net liability (asset) for defined benefits during the period, as a consequence of the estimates of contributions and payments of benefits.

The plan amendments that affect the cost of prior services are immediately recognized in income in the year in which the modification occurs, without any possibility of deferment in subsequent years. Moreover, the effects of events of liquidation or reduction of obligations in the period, which significantly reduce the cost of future services and/or significantly reduce the population subject to the benefits, respectively, are recognized in income for the year.

Plan assets are managed through an irrevocable trust. The Institution makes the contributions determined in that actuarial calculation and recognizes the fair value provided therein.

The remeasurements generated beginning January 1, 2016 (formerly actuarial gains and losses) arising from differences between projected actuarial hypotheses and the real amounts at the end of the period are recognized in the period in which they are incurred as part of comprehensive income in stockholders' equity. They are subsequently recycled to income for the period, based on the expected life of the retired group.

- Defined contribution plan

As part of the review performed of general working conditions performed in September 2009, the Institution implemented a defined contribution plan with mandatory individual accounts for newly hired workers and optional for those who joined the Institution prior to that date, and that were in the Defined pension plan. Employees who decided to change to this plan cannot go back to the Defined benefits plan.

With regard to pensions in this plan, Banobras makes biweekly contributions, and recognizes their effect in income, in the caption of Administrative and promotional expenses. Post-retirement benefit liabilities arising from seniority premiums to which employees are entitled in accordance with the Federal Labor Act, other post-employment benefits such as medical service and other benefits arising from termination due to causes other than restructuring are recognized based on the actuarial calculation performed by independent expert appraisers. The net cost for the period is recognized by allocating it in income in the caption of administrative and promotional expenses.

Plan assets are managed through an irrevocable trust. The Institution makes the contributions determined in that actuarial calculation and recognizes the fair value provided therein.

- Initial accrued effect as of January 1, 2016, due to update of MX FRS D-3 Employee benefits.

Banobras, as a Development Banking Institution, started in fiscal 2021, recognize the balance of plan amendments nor yet recognized for accounting purposes, and the accrued balance of gains or losses on the plan amendment not yet recognized no later than fiscal 2021, by recognizing 20% beginning with its initial application, and an additional 20% in each subsequent year until reaching 100% in to the fiscal 2025.

In addition, and since MX FRS D-3 "Employee benefits" sets forth that remeasurements recognized in OCI must subsequently be recycled to income for the year based on the expected life of the retired group at the beginning of each period, that is, by forming part of the net cost for the period and to avoid a distortion in stockholders' equity of the Institution, an amount, which is equivalent to the recycling determined in the year, is being recognized therein and in the liability, which mainly includes the recycling determined with the change of standard. The foregoing is not an advanced recognition of the changes due to reissue, indicated in the resolution referred to above that modifies the CUB.

v. Employee Profit Sharing (PTU)

PTU caused and deferred is presented in the Statement of Comprehensive Income in the caption of administrative and promotional expenses.

Deferred PTU is determined based on the asset and liability method. Under this method, a 10% rate is applied to all differences arising between book and tax values of assets and liabilities.

The Institution determines the base of PTU in accordance with the procedure set forth in Article 9 of the Income Tax Regulations (LISR) in effect as of December 31, 2022. The Institution provided the amount of $3 for PTU for fiscal 2022.

As of December 31, 2022, Banobras recorded a deferred PTU asset in the amount of $1,812 (Note 15 and 21e).

w. Income tax

Income tax is comprised of the current and deferred tax for the period. The current tax is attributable to income for the period, whereas deferred tax can create an effect payable by or in benefit of the Institution attributable to the temporary differences between book and tax values of assets and liabilities, losses, and tax liabilities.

Current Income Tax is determined in accordance with currently enacted tax legislation. This tax represents a liability of a term less than one year. When advances made exceed the tax determined for the year, the excess generated is a receivable.

Deferred tax is determined under the asset and liability method, by applying the income tax rate (ISR).

The deferred tax rate is that which is set forth in tax provisions at the date of the financial statements or, if applicable, that tax rate that will be in effect at the date on which temporary differences are reversed, tax loss carryforwards are realized or tax liabilities are applied against tax current for the period.

x. Assets and liabilities in investment units (UDIS)

Assets and liabilities denominated in UDIS are presented in the Statement of financial position at the Mexican pesos value of the UDI at the date of the financial statements. The value of the UDI at December 31, 2022 amounts to $7.646804. The value of the UDI at the issue date of these financial statements (February 28, 2023) is $7.739885.

y. Stockholders' equity

Stockholders' equity of Banobras is divided into contributed capital and capital gains.

- Contributed capital

The contributed capital of Banobras is comprised of capital stock, represented by Certificates of Capital Contribution (CAPs), unsubscribed for or unpaid capital, contributions for future capital increases, and premium on subscription of CAPs.

Banobras recognizes contributed capital at the fair value of the amount contributed to the institution, which is not modified by changes in the fair value of financial instruments that represent contributed capital.

- Earned capital

The capital gains of Banobras includes the balances of retained earnings, retained earnings in capital reserves, accumulated losses, and other accumulated comprehensive income. The adjustments to prior year income (loss) are treated by Banobras, in accordance with the provisions set out in MX FRS B-1, changes in accounting changes and error corrections.

Other Comprehensive Income (OCI)

OCI is income (loss) which, although it has been accrued, is unrealized and it is foreseen from middle to long-term, and it is probable that its amount varies due to changes in the fair value of the assets or liabilities that gave rise thereto. Due to the risk entailed of not being realized, Banobras recognizes OCI in stockholders' equity separately from retained earnings or accumulated deficits.

The main items that comprise the OCI of Banobras correspond to the valuation of financial instruments for collecting or selling, the valuation of cash flow derivative financial instruments and remeasurements of defined employee benefits.

Banobras recycles OCI at the time that OCI is realized, that is, it stops recognizing them as a separate element in stockholders' equity, and it recognizes them in the net income or loss for the period in which the assets or liabilities that gave rise thereto are realized.

z. Memorandum accounts

The Institution records financial and non-financial information complementary to the items presented in the Statement of financial position in memorandum accounts, mainly for the opening of lines of credit executed with borrowers, guarantees, securities in custody and management valued at their fair value, trust assets (when Banobras acts as a trustee), and assets and liability positions of financial instruments generated by repurchase agreements (repos). Notional amounts of derivative financial instruments are also recognized in memorandum accounts, which are maintained contracted and budgetary control items.

aa. Financial Agent of the Federal Government

The transactions carried out by the Institution for account and order of the Federal Government under the concept of mandate are recorded in memorandum accounts. Brokerage fees generated by managing these transactions are recorded in income as generated.

Transactions other than those carried out under the concept of mandate in which the Institution assumes the rights and obligations arising from loan portfolio agreements and loans with agencies are recorded in accordance with the type of transaction, that is, as a loan portfolio or as a loan from foreign banks and other agencies, as the case may be. These transactions are presented in the captions of Loan portfolio and Interbank loans and from other agencies, respectively.

bb. Revenue from contracts with customers.

Banobras applies the requirements to recognize revenues from contracts with customers of MX FRS D-1, revenues from contracts with customers, except for contacts in which their accounting treatment is defined in the scope for another particular standard. Accordingly, Banobras applies this standard to its custody asset management operations, trust operations and operations for furnishing guarantees.

Pursuant to its relative importance, Banobras analyzes the contracts that comprise the items considered as significant, whose amount exceeds the minimum thresholds defined by the Institution. Those thresholds are reviewable annually. Items whose amount exceeds $50 were determined as items subject analysis pursuant to MX FRS D-1 for fiscal 2022.

- Conditions of recognition

Banobras recognizes revenues from contracts with customers, by considering the basic principles: i) it has transferred control of the services rendered to its customers; and ii) it has received the consideration to which it is entitled in exchange.

Banobras applies the five-step model under this context: i) the contract (or contracts) is identified with the customer; ii) the obligations to be performed in the contract are identified; iii) the price of the transaction is determined; iv) the price of the transaction is set between the obligations to be performed in the contract, by identifying the existence of a significant financing component in the contract; iv) revenues is recognized (or to the degree that) the obligation to be performed is met.

- Initial and subsequent recognition

Banobras recognizes revenues from for services accrued by creating a receivable, which represents the unconditional rights to receive the consideration to which it is entitled for having rendered its services. Moreover, revenues for services accrued in the period are recognized in institutional income (loss), pursuant to their nature.

Once the obligation to be fulfilled are met, Banobras writes off the receivable received and receives the proceeds from the operations carried out.

In the event of default in the payment of the consideration to which Banobras is entitled for rendering its services, the accounting treatment is applied corresponding to the type of operation involved, by generating controls required in memorandum accounts.

cc. Costs from contracts with customers

The costs incurred by Banobras to obtain and perform a contract with customers, which are not within the scope of particular standards, if applicable, are recognized within the scope of MX FRS D-2, costs from contracts with customers.

Pursuant to its relative importance, Banobras analyzes the contracts that comprise the items considered as significant, whose amount exceeds the minimum thresholds defined by the Institution. Those thresholds are reviewable annually. Items whose amount exceeds $10 were determined as items subject analysis pursuant to MX FRS D-2 for fiscal 2022. However, no costs in the scope of MX FRS D-2- were identified as of December 31, 2022.

dd. Commission income and expense

Commissions and fees collected and paid are those generated by credit operations other than those that give rise thereto. They are generated for rendering services, among other things, such as management, transfer, custody or fund management, trustee activities, and for furnishing guarantees by endorsement. They are recognized in income at the time when they are accrued.

ee. Intermediation income

It arises mainly from the gain or loss at fair value of trading securities and financial operations arising from trading and hedging, as well as the gain or loss from buying and selling securities, currencies, and derivative financial instrumnts.

ff. Comprehensive income

Comprehensive income of the Institution is represented by net income for the year, plus other comprehensive income for the period.

gg. Segment information

The Institution has identified the operating segments of its different activities, by considering each one as a component in its internal structure, with risks and particular yield opportunities. These components are reviewed regularly to allocate appropriate monetary proceeds for their operation and performance evaluation (Note 27).

3. Special Accounting Criteria

a) Special accounting criteria (CCE)

Pursuant to Official Communications P285/2020, P293/2020, dated March 26 and April 15, 2020, respectively, the CNBV issued temporary Special Accounting Criteria (CCE) in fiscal 2020.

The foregoing is concerned with the programs and support that lending institutions have implemented to benefit their clients by virtue of the "Agreement whereby the General Health Council recognizes the epidemic of disease caused by the SARS-CoV2 virus (COVID-19) in Mexico, as a serious disease meriting priority attention, as well as the preparation and response activities in dealing with that pandemic", published in the Official Daily Gazette on March 23, 2020, and the impact that it is generating in various activities of the economy, among other aspects.

In this regard, the Board of Directors of BANOBRAS authorized the specific criteria for implementing a temporary support program through Agreement 038/2020 in April 2020, whereby both Public Sector and Private Sector clients would be given the benefit of deferring their payments of capital and/or interest, in whole or in part, including the corresponding accessories up to 4 months, with the possibility of extending it for 2 additional months.

The support program would conclude no later than 120 calendar days subsequent to February 28, 2020. However, given the conditions of the contingency, the CNBV decided to extend the validity of the CCE up to July 31, 2020.

The CCE basically set forth particular rules in the observation of periods for not considering credits renewed or restructured as non-performing portfolio, provided that the credits were classified in performing portfolio in effect as of February 28, 2020, and that this formal procedure had been carried out in the period authorized by the CNBV.

Based on the aforementioned, as of December 31, 2022, a credit is reported in the CCE scheme; which is classified as Credit with business or commercial activity, being the deferral of payment of principal and interest, the approved concepts.

As of December 31, 2022, the effects of the application of the CCEs are the following:

- **Loan portfolio**

Item	Type of loan	Deferred amount
Interest	Business or commercial activity	$ 14

- **Balance due**

Considering the scenario in which the CCEs had not been applied, the credits included in the aforementioned scheme would be in past-due portfolio, considering non-payment of the amounts that were deferred as default; Therefore, at the end of December 2022, the following past due balances would be held:

Type of loan	
Business or commercial activity	$ 713

- **Interest income**

Credits incorporated into the program without CCE in fiscal 2022 would have been recognized in the amount of $638 in income (loss), an amount that is $30 lower, in connection with what was presented in the Statement of Comprehensive Income for interest income.

As of December 31, 2022, interest income is presented as follows:

Type of loan	With CCE	Without	Difference
Business or commercial activity	$ 87	$ 57	$ 30
Governmental entities	581	581	-
	$ 668	$ 638	$ 30

- **Allowance for loan losses**

At fiscal 2022 year-end, the complementary preventive estimate for credit risks that would have been recorded in the Statement of financial position, as well as in the Statement of Comprehensive Income would amount to $643, had the CCEs not been applied.

Allowance for loan losses	
For borrowers to which the CCEs were applied	$ 263
For the borrowers with CCEs had the criteria referred to not been applied	906
Complementary preventive estimate in the event of not having applied CCEs	643
For the loan portfolio without including the borrowers to which CCEs were applied	15,571
For the total loan portfolio (Financial statement)	16,214

- **Capitalization ratio:**

As of December 31, 2022, the information regarding the calculation of the Capitalization.[1]

Ratio considering the effect of the special accounting criteria, as well as that that would have been obtained if they had not been applied, is as follows:

Item	With CCE	Without CCE
Net capital	$ 583,815	$ 83,510
Weighted assets subject to total risks	382,261	382,333
Capitalization index (ICAP)	21.93%	21.84%

[1] In process of validation by Central Bank of Mexico (Banxico).

b) Banobras' strategy in dealing with the COVID contingency

As a consequence of the sanitary contingency, the national economy experienced a significant contraction in liquidity levels and credit supply. This situation significantly increased the credit supply from Banobras, which was reflected in a significant increase in its loan portfolio. All the known effects of this growth of the portfolio are reflected in its financial information.

The Institution maintained the dynamics in granting credit for the development of infrastructure with a high social impact to allow for recovering and generating jobs, which promoted the participation of commercial banking and other financial agents. Resources were channeled toward projects in which commercial banking did not participate due to a higher perception of risk.

The following actions, among other things, which contributed to reactivating the economy stand out:

i. It promoted financial inclusion by granting credits to states and municipalities, which enabled them to develop priority works.

ii. It implemented temporary programs for the borrowers who have been affected by the current sanitary contingency;

iii. It supported strategic projects with financing, considered in the Agreements for the development of infrastructure of the Government of Mexico with the private sector; and

iv. It channeled financing to carry out works that benefited the most vulnerable population and generated well-being.

Banobras reported credit granted in the amount of $119,190 in 2022, highlighted by financing from the Federal Government, States, and Municipalities and investment projects, primarily in energy projects.

On the other hand, the Bank maintained the recovery of its loan portfolio in the amount of $69,442 from the Federal Government, States, and Municipalities, and State-Owned Productive Enterprises.

The Bank reported a 2.52% nonperforming loan index (portfolio stage 3/total portfolio) at 2022 year-end. The financial soundness of Banobras is highlighted by having a 21.63% capital adequacy ratio (ICAP-as per its acronym in Spanish), which indicates that the bank is in a position to deal with unexpected losses and/or loan portfolio impairment.

In the context of an economic contraction, the Institution obtained a net gain in the amount of $633, once the payments were made to the Federal Government for their sovereign guarantee on the liabilities of Banobras.

Pursuant to the matter addressed above, the Bank did not have any significant qualitative and/or quantitative impacts arising from the sanitary contingency. The Institution had the necessary pre-budget resources necessary to deal with operating and administrative expenses; therefore, personnel were maintained by prioritizing the home-office phenomenon. Moreover, the Institution did not experience any financial asset impairment as of the date of the financial statement.

c) COVID Accounting Facilities

The CNBV issued temporary accounting regulatory facilities (the COVID Accounting Facilities), pursuant to Official letters P417/2020 and P418/2020 dated September 24, 2020. These facilities may be applicable to credits granted as of March 31, 2020, whose compliance in original terms has been affected by the epidemic referred to above as of September 24, 2020. Basically, they set out particular rules in credit renewals or restructuring. As of December 31, 2022, the Institution has not incorporated credits into this scheme.

d) Institutional Restructuring Programs (PIR - for its acronym in Spanish)

The CNBV issued temporary regulatory facilities for lending institutions that implement Institutional Restructuring Programs (PIR - for its acronym in Spanish), pursuant to official letter P477/2020 dated November 9, 2020 to offer better credit conditions to its clients. These programs may be applied simultaneously or independently in connection with restructurings or renewals in reliance on COVID Accounting Facilities. The PIRs may be applied to balances drawn down as of April 15, 2020 of the credits that meet the total conditions set out in the above Official Letter. As of December 31, 2022, the Institution has not incorporated credits into this scheme.

e) Special Accounting Criteria in connection with credits whose source of payment is located in zones declared as a natural disaster

The CNBV issued temporary special accounting criteria applicable to consumer, housing, and commercial credits for clients that have their domicile or the credits whose source of payment is located in affected zones, declared by the Ministry of the Interior or by the Ministry of Security and Citizen Protection as a natural disaster zone, pursuant to official letter P481/2020 dated November 25, 2020. The support will basically consist of deferring partial or total payments on capital and/or interest for three months, six months in the case of group microcredits or up to 18 months in the case of credits allocated to agricultural and rural sectors, with the consequent benefit that the credits will continue to be reported as performing with credit rating companies (credit bureaus). As of December 31, 2022, the Institution has not incorporated credits into this scheme.

4. Opening balances due to the application of the IFRS Standard

On March 13, 2020, the CNBV published the decision in the DOF, which amended the General provisions applicable to lending institutions, in order to incorporate the Financial Reporting Standards issued by the CINIF to converge Mexican Financial Reporting Standards with International Financial Reporting Standards IFRS 9 and IFRS 16.

Transition Article Five of the General Provisions Applicable to Lending Institutions sets out a practical solution, whereby Lending institutions may recognize the accumulated effect of accounting changes as of the initial date applied, that is, January 1, 2022. Moreover, those “Provisions” set forth that the annual basic financial statements corresponding to the period ended as of December 31, 2022 should not be presented on a comparative basis with the period ending as of December 31, 2021.

Pursuant to the foregoing, Banobras presents its non-comparative financial statements for the period ending as of December 31, 2021. Accordingly, the effects arising from the adoption of new accounting criteria have been applied as on January 1, 2022, which are described in detail below:

STATEMENT OF FINANCIAL POSITION (Amounts in millions of Mexican pesos)	January, 1 2022	BALANCE SHEET (Amounts in millions of Mexican pesos)	December 31, 2021	Initial Effect	
A S S E T		**A S S E T**			
Cash and cash equivalents	$ 12,059	**Availabilities**	$ 12,059		
Investments in financial instruments		**Investments in securities**			
Negotiable financial instruments	9,795	Titles to trade	368,195	$ (358,400)	**(1**
Financial instruments to collect or sell	358,882	Titles available for sale	15,279	343,603	**(1**
Financial instruments to collect principal and interest (securities) (net)	25,246	Securities held to maturity	9,066	16,180	**(1**
	393,923		**392,540**	**1,383**	
Repo debtors (debit balance)	**4,585**	**Repo debtors (debit balance)**	**-**	**4,585**	**(2**
Derivative financial instruments		**Derivatives**			
Trading purposes	13,482	For trading purposes	13,493	(11)	**(3**
Designated as hedging	7,583	For hedging purposes	7,572	11	**(3**
	21,065		21,065		
		Valuation adjustment for hedging of financial assets	(286)	286	**(4**
Credit portfolio with Stage 1 credit risk		**Current credit portfolio**			
Business or commercial activity	141,484	Business or commercial activity	141,484		
Financial entities	28,079	Financial entities	28,079		
Government entities	328,261	Government entities	328,866	(605)	
Housing loans	79	Housing loans	82	(3)	
Loans granted as Agent of the Federal Government	454	Loans granted as Agent of the Federal Government	454		
	498,357		**498,965**	**(608)**	**(5**
Credit portfolio with Stage2 credit risk					
Government entities	605			605	
Housing loans	3			3	
	608			**608**	**(5**
Credit portfolio with credit risk Stage3		**Credit portfolio is expired**			
Business or commercial activity	10,080	Business or commercial activity	10,080		
consumer credits	10	Consumer credits	10		
Housing loans	47	Housing loans	47		
	10,137		**10,137**		
Credit portfolio	509,102	Credit card	509,102		
Deferred items	(2,655)			(2,655)	(6
Allowance for loan losses	13,902	Preventive allowance for credit risks	14,868	(966)	(7
Total loan portfolio (net)	**492,545**	**Total loan portfolio (net)**	**494,234**		
Other accounts receivable (net)	13,331	Other accounts receivable (net)	13,294	37	**(8**
Foreclosed assets (net)	1	Foreclosed assets (net)	1		
Advance payments and other assets (net)	4,479			4,479	**(9**
Property, furniture and equipment (net)	517	Property, furniture and equipment (net)	517		
Assets for rights of use of property, furniture and equipment (net)	9			9	**(10**
permanent investments	74	Permanent investments	74		
Deferred income tax asset (net)	5,840	Deferred taxes and PTU (net)	7,421	(1,581)	**(11**
		Other assets	2,933	(2,933)	**(9**
Total assets	**948,428**	**Total assets**	**943,852**		
L i a b i l i t i e s		**L i a b i l i t i e s**			
Traditional catchment	458,638	Traditional catchment	458,416	222	**(4 y (12**
Interbank loans and loans from other organizations	22,418	Interbank loans and loans from other organizations	22,418		
Reporter creditor	357,169	Reporter creditor	357,169		
Collateral sold or pledged	4,585	Collateral sold or pledged		4,585	**(2**
Derivative financial instruments		**Derivatives**			
For trading purposes	7,696	For trading purposes	7,696		
For hedging purposes	7,923	For hedging purposes	7,923		
	15,619		**15,619**		
Lease liability	9			9	(10
Other accounts payable	5,875	Other accounts payable	5,875		
Deferred credits and early collections	2,026	Deferred credits and early collections	4,807	(2,781)	(6
Total liabilities	**866,339**	**Total liabilities**	**864,304**		
Stockholders' equity		**Stockholders' equity**			
Contributed capital		**Contributed capital**			
Social capital	21,314	Social capital	21,314		
Undisclosed share capital		Undisclosed share capital			
Contributions for future capital increases formalized by its Governing Body	14,011	Contributions for future capital increases formalized by its Governing Body	14,011		
Premium for subscription of equity contribution certificates	16,622	Premium for subscription of equity contribution certificates	16,622		
	51,947		**51,947**		
Earned capital		**Earned capital**			
Capital reserves	5,718	Capital reserves	5,718		
		Result of previous years	22,561		
		Net result	2,340		
Cumulative results	25,685		24,901	784	**(13**
Other comprehensive results:					
Valuation of financial instruments to collect or sell	367	Result from valuation of available-for-sale securities	(1,390)	$ 1,757	(1 y (14
Valuation of derivative financial instruments to hedge cash flows	3	Result from valuation of cash flow hedging instruments	3		
Remeasurement of defined employee benefits	(1,631)	Remeasurements for defined employee benefits	(1,631)		
	30,142				
Total controlling interest	**82,089**		**27,601**		
Total non-controlling interest	**-**		**-**		
Total stockholders' equity	**82,089**	**Total stockholders' equity**	**79,548**		
Total liabilities and stockholders' equity	**$ 948,428**	**Total liabilities and stockholders' equity**	**$ 943,852**		

a) Effects of adoption recognized in retained earnings (13)

	Amount
6) Amortization of fees for loans granted due to change of stage 3	$ 126
7) Allowance for loan losses	966
8) Allowance for expected credit losses (other receivables)	37
12) Transaction costs (Traditional deposits)	29
14) Allowance for expected credit losses and new classification (Investment in financial instruments)	(374)
	$ 784

b) Effects of classification and presentation due to adoption of IFRS standard

1) Classification of investments in financial instruments in conformity with the Business model.
2) The rule of presentation of repurchase transactions (repos) is modified pursuant to the provisions set out in MX FRS B-12 Compensation of financial assets and liabilities.
3) Reclassification of derivative financial instruments.
4) Effect of remeasurement of hedge relationships amounting to $286.
5) Portfolio rating issued to governmental entities and loans to the housing loan portfolio with a Stage 2 credit risk in the amount of $605 and $3, respectively.
6) Fees on loans granted that comprise the loan portfolio are included in the caption of Deferred items in the amount of $2,781.
9) Presentation of deferred PTU amounting to $1,581, less Transaction costs amounting to $35, and the reclassification of the balance of other assets amounting to $2,933.
10) Right-of-use assets and lease liabilities (MX FRS D-5 Leases).
11) Reclassification of deferred PTU amounting to $1,581 to Prepaid expenses and other assets (Net).
12) $35 for reclassification of Prepaid expenses and other liabilities.

c) Opening entry of the credit risk for Derivative Financial Instruments

On January 3, 2022, the Institution made its opening entry of credit risk for derivative financial instruments by counterparty, which is recorded in intermediation income in the following manner:

	CVA	DVA	Net effect
Coverage	$ 30	$ 3	$ 27
Negotiation	$ 470	$ 53	$ 417

5. Related parties

Asset and liability operations

At December 31, 2022, loans in which the Institution acts as a Financial Agent of the Federal Government, including the related liabilities stated in Mexican pesos, are as follows:

	Asset Transaction	Liability transaction	Long position (short)
Financial agent:			
Euros	$ 371	$ 369	$ 2

The resulting long positions are covered by the Federal Government.

The balances of the operations carried out with related parties, if applicable, are disclosed in the subsequent notes, related to the concepts of the Statement of financial position and the Statement of comprehensive income (Notes 11 and 19).

6. Foreign currency balances

At December 31, 2022, the financial statements contain foreign currency denominated rights and obligations, as follows:

Type of currency	Foreign Currencies	Equivalence in Mexican pesos
Assets:		
US dollars	2,736	$ 53,373
Japanese yen	45,882	6,763
Euros	20	423
		60,559
Liabilities:		
US dollars	2,504	48,853
Japanese yen	47,178	6,954
Euros	18	369
		56,176
Long position		$ 4,383

At December 31, 2022, the exchange rates used to value foreign currency denominated assets and liabilities in Mexican pesos are:

	Amounts in Mexican pesos
US dollars	$ 19.5089
Japanese yen	0.1474
Euros	20.76928

At February 28, 2023, issue date of the financial statements, the U.S. dollar exchange rate is $18.3253 Mexican pesos, the Japanese yen is $0.1346 Mexican pesos, and the Euro is $19.45558 Mexican pesos.

In conformity with Circular 3/2012 issued by Banxico, at the end of each business day, the Institution may maintain an exchange risk position, both overall and for each currency, which does not exceed the equivalent of 15% of its basic capital. At December 31, 2022, the Institution complies with this limit.

7. Cash and cash equivalents

At December 31, 2022, this caption is summarized as follows:

Cash, bills, and coins	$ 1
Deposits in domestic and foreign banks (a)	341
Deposit in Banxico (b)	11,428
Restricted cash and cash equivalents ©	203
	$ 11,973

a. Deposits in domestic and foreign banks

As at December 31, 2022, the balances of these deposits are summarized as shown below:

Currency	Features	Foreign currency (thousands)	Mexican pesos
Mexican pesos	Checking accounts	-	$ 9
US dollars	Checking accounts	14,236	278
Japanese yen	Checking accounts	14,347	2
Euros	Checking accounts	2,526	52
			$ 341

b. Deposit in Banxico

Banxico sets forth the obligation for credit institutions to create a monetary regulation deposit, which is determined based on the Deposit funding in Mexican pesos of each Institution. This deposit lacks a term and accrues interest pay able every 27, 28, 29 or 30 days at the Target Rate published by Banxico.

At December 31, 2022, the balance of the monetary regulation deposit held by Banobras in Banxico amounts to $11,428, the target rate at those dates was 10.54%.

At December 31, 2022, interest earned on Cash and cash equivalents amounts to $895 (Note 28).

c. Restricted cash and cash equivalents

As of December 31, 2022, this item corresponds to the excess in the maximum obligation of the pension plan (Note 23).

8. Investments in financial instruments

At December 31, 2022, investments in financial instruments are made up as follows:

1. Negotiable financial instruments (IFN)

	Cost of acquisition	Interest	Result by valuation	Fair value
Unrestricted securities				
Mutual funds	$ 1,546	$ 6	-	$ 1,552
	1,546	6	-	1,552
Restricted securities				
Stock certificates	349	1	$ (12)	338
Stock certificates (GF)	2,216	27	(141)	2,102
	2,565	28	(153)	2,440
	$ 4,111	$ 34	$ (153)	$ 3,992

Financial instruments restricted as of December 31, 2022, correspond to collaterals granted in repurchase agreements.

As of December 31, 2022, the interest income recognized from IFNs amounts to $561, which is presented in the interest income caption of comprehensive income (Note 28).

2. Financial instruments to collect or sell (IFCV)

Unrestricted securities	Cost of acquisition	Interest	Valuation	ECL	Fair Value
Fixed rate bonds	$ 73	-	-	-	$ 73
BONDES LD	2,359	$ 15	$ 4	-	2,378
Bank stock certificates	4	-	-	-	4
	2,436	15	4	-	2,455
Restricted securities					
Bank stock certificates	14,205	55	-	$ 1	14,259
Stock certificates (GF)	5,141	25	(5)	-	5,161
BPAG28	19,914	70	(22)	-	19,962
BPAG91	21,545	345	(79)	1	21,810
BPAS	25,626	778	(48)	1	26,355
BONDES LD	54,559	145	77	2	54,779
BONDES LF	230,513	1,239	119	9	231,862
BONDES LG	2,968	2	3	-	2,973
	374,471	2,659	45	14	377,161
	$ 376,907	$ 2,674	$ 49	$ 14	$ 379,616

Financial instruments restricted as of December 31, 2022, correspond to collaterals granted in repurchase agreements.

At December 31, 2022, the recognized income from the IFCV amounts to $29,760, which is presented in the interest income caption of comprehensive income (Note 28).

3. Financial instruments to collect principal and interest (IFCPI) (securities) (net)

At December 31, 2022, the Financial Instruments to collect principal and interest are made up as follows:

	Expiration	Cost	Interest	ECL	Total
Unrestricted Instruments					
Bank stock certificates	May, 2023	$ 2,479	$ 14	$ 1	$ 2,492
Stock certificates (GF)	April, 2023	7,273	161	-	7,434
Private stock certificates (i)	November, 2028	8,667	98	310	8,455
Federal Government Bonds (USD)	March 2048	1,949	35	1	1,983
EUROBONOS (USD)	November 2026	1,610	16	1	1,625
Stock Market Certificates of States and Municipalities	June 2038	2,004	10	-	2,014
		23,982	334	313	$ 24,003
Valuation effect of risks covered		-	-	-	1,057
		$ 23,982	$ 334	$ 313	$ 25,060

As of December 31, 2022, the amounts of interest income from investments classified as IFCPI amount to $1,979 (Note 28).

(i) UNIFIN announced the suspension of the payment of its debt in August 2022. Consequently, the Institution recorded an Allowance for Expected Credit Loss in the amount of $310. Banobras has 4,500,000 UNIFIN Senior Notes in its position, whose value amounts to $450 and is classified in the Stage 3 credit risk, and its estimated recovery percentage is 31.36%. The issuer announced the beginning of the process to file for bankruptcy in November 2022. Uncollected accrued interest amounts to $22, of which $14 is managed in memorandum accounts.

4. Reclassifications

On December 29, 2022, investments in fixed rate financial instruments of the IFCV category Investment Portfolio was reclassified to IFCPI for accounting purposes (accounting changes), as presented below:

	Reclassification date	initial category	final category	Fair value (IFCV) [2]	Amortized cost (IFCPI)[3]	Effect on Valuation due to reclassification
Unrestricted Instruments						
Bank stock certificates	December, 29	IFCV	IFCPI	$ 767	$ 797	$ (30)
Stock certificates (GF)	December, 29	IFCV	IFCPI	5,565	5,919	(354)
Private stock certificates	December, 29	IFCV	IFCPI	6,178	6,058	120
Federal Government Bonds (USD)	December, 29	IFCV	IFCPI	1,545	1,971	(426)
EUROBONOS (USD)	December, 29	IFCV	IFCPI	1,328	1,617	(289)
Stock Market Certificates of States and Municipalities	December, 29	IFCV	IFCPI	1,972	2,012	(40)
				17,355	18,374	(1,019)
				$ 17,355	$ 18,374	$ (1,019)

Pursuant to agreement 090/2022 dated December 29, 2022, the Comprehensive Risk Management Committee unanimously approved the reclassification (accounting change) of fixed rate instruments from the IFCV Investment Portfolio (PI) to IFCPI, effective retrospectively as of January 3, 2022. The Committee referred to above acknowledged that correction pursuant to agreement 097/2022.

The accounting effects of the reclassification (accounting change) from IFCV to IFCPI are presented below:

	Amount initial	Debit (credit)	Amount final
Reclassification of Principal and interest (Assets)			
Principal and interest IFCV (Asset)	$ 18,376	$ (18,376)	-
Principal and interest IFCPI (Assets)	-	18,376	$ 18,376
Interest Reclassification (Income Statement)			
Interest IFCV	(1,442)	1,442	-
Interest IFCPI	-	(1,442)	(1,442)
IFCV Valuation Cancellation (Asset)			
IFCV valuation (asset)	(1,019)	1,019	-
Valuation (OCI Results)	535	(535)	-
Valuation (OCI Capital)	484	(484)	-
Recognition of the EPC of the IFCPI (Active)			
IFCV Impairment (Assets)	(2)	2	-
EPC IFCPI (Active)	-	(2)	(2)
Reclassification of the valuation at fair value of the risks covered by IFCV registered in ORI Stockholders' equity and Results at fair value of risks covered by IFCPI in assets			
OCI Capital (disability)	1,868	(1,868)	-
OCI Results	(786)	786	-
IFCPI Fair value of hedged risks Asset		1,082	$ 1,082

5. Allowance for expected credit losses for investments in financial instruments

As of December 31, 2022, expected credit losses on investments in IFCPIs amount to $313. A that same date, the effect on comprehensive income amounts to $310, which is presented in the caption of intermediation income.

[2] IFCVs are valued at fair value.
[3] IFCPIs are valued at amortized cost.

6. Other Comprehensive Income (OCI)

As of December 31, 2022, the effect of valuation of investments in IFCV recognized in the caption of OCI amounts to $319.

9. Repurchase trading

a. Summary

At December 31, 2022, current repurchase agreements repos are summarized below:

	Receivables and collateral Under Security Repurchase agreements	Payables Under Security Repurchase agreements
Debtors under security repurchase agreements		
BPAS	-	$ 26,404
BPAG28	-	19,984
BPAG91	-	21,890
CEBIC	$ 500	-
Securities exchange certificates (GF)	-	7,310
Securities exchange certificate	-	12,597
Deposit certificates	-	2,013
Government stock certificates	-	100
BONDES LD	3,501	54,751
BONDES LF	9,005	231,751
BONDES LG	-	2,970
	$ 13,006	$ 379,770
Collateral sold or pledged (1)		
CEBIC	$ 500	
BONDES LD	3,501	
BONDES LF	9,005	
	$ 13,006	

(1) At December 31, 2022, the effect of valuation of collateral sold or pledged amounts to $3.

Collateral received by the Institution, as well as pledged collateral or delivered by the Institution are presented in memorandum accounts (Note 34).

b. Interest on repurchase agreements repos.

As of December 31, 2022, accrued interest earned in repurchase transactions (repos) amounts to $1,119, whereas interest payable in repurchase transactions repos amounts to $29,362 (Note 28).

c. Terms and instruments

The average term of repurchase transactions repos as of December 31, 2022 ranges between 1 and 30 days, and the main instruments are as follows:

- Savings Protection Bonds (BPAS)
- Federal Government Development Bonds (BONDES)
- Securities Exchange Certificates (CEBURES)
- Segregable Highway Indemnification Securities Exchange Certificates (CEBICS)
- Savings Protection Bonds with a monthly interest payment and additional benchmark interest rate (BPAG)
- Certificates of deposit (CEDES)

d. Rates agreed upon in repurchase transactions (repos)

The rate agreed upon of securities purchased under repurchase agreements (repos) is 7.6678%. The rate for collateral furnished as a guarantee is 7.8181%, and it is 7.7490% for securities sold under repurchase agreements (repos).

10. Derivative financial instruments

a. Trading derivatives

As of December 31, 2022, trading and hedging derivative financial instruments contracted on unrecognized markets (over-the-counter or OTC) presented the following itemization of fair value, by type of derivative financial instrument, type of underlying asset, and by counterparty:

	Amount		Presentation		
	Asset	Liabilities	Asset	Liabilities	Net
For trading purposes					
Trading swaps:					
U.S. dollar/ Mexican Peso	$ 663	$ 1,039	$ 94	$ 470	$ (376)
U.S. dollar/ Mexican Peso	1,051	663	484	96	388
UDIS/ Mexican Peso	1,709	804	905	-	905
Mexican Peso/UDIS	797	1,692	-	895	(895)
YEN/ Mexican Peso	6,761	2,056	6,761	2,056	4,705
Interest rates / U.S. dollar / U.S. dollar	10,572	9,977	2,601	2,006	595
Interest rates / Mexican Peso/ Mexican Peso	32,837	32,521	3,092	2,776	316
Total trading securities	54,390	48,752	13,937	8,299	5,638
Fair value hedge swaps:					
UDIS/ Mexican Peso	24,151	19,747	4,404	.	4,404
UDIS/ Mexican Peso	14,516	19,939	-	5,423	(5,423)
U.S. dollar/ Mexican Peso	1,479	1,265	1,479	1,265	214
Mexican Peso/ U.S. dollar	4,266	4,891	4,266	4,891	(625)
Interest rates	73,362	68,678	7,095	2,411	4,684
	117,774	114,520	17,244	13,990	3,254
Cash flow hedge swaps:					
Mexican Peso/ U.S. dollar	4,310	6,132	4,310	6,132	(1,822)
U.S. dollar / Mexican Peso	225	200	225	200	25
	4,535	6,332	4,535	6,332	(1,797)
Total for hedging purposes	122,309	120,852	21,779	20,322	1,457
	$ 176,699	$ 169,604	$ 35,716	$ 28,621	$ 7,095

The valuation effect of derivative financial trading, as well as hedged items are recognized in the caption of Intermediation income. As of December 31, 2022, this effect accounted for an unrealized loss in the amount of $918, of which the amount of $1,088 corresponds to financial derivatives trading and an unrealized gain amounting to $170, which correspond to financial derivatives trading and hedged items (Note 29). Cash flow hedging transactions include an allocation due to hedge ineffectiveness in the intermediation income, which does not have any representation as of fiscal year-end, and an allocation for hedge effectiveness which is recorded in OCI with an unrealized gain amounting to $13 and $3 in the OCI of Capital (Notes 25d and 26).

As of December 31, 2022, the Institution does not hold financial assets related to derivative financial instruments that are considered to be impaired.

At December 31, 2022, the notional amount, accrued interest, and valuation effect of the position of derivative financial instruments for trading purposes and designated as hedges are summarized as follows:

	Notional amount	Interest	Valuation	Credit Risk	Fair Value
Swaps for trading purposes:					
Swaps U.S. dollar/ Mexican Peso					
Asset- U.S. dollar	$ 966	$ 2	$ 85	$ (2)	$ 1,051
Liability – Mexican Peso	638	2	23	-	663
	328	-	62	(2)	388
Swaps Mexican Peso/ U.S. dollar					
Asset – Mexican Peso	637	-	26	-	663
Liability – U.S. dollar	964	-	84	(9)	1,039
	(327)	-	(58)	9	(376)
Swaps UDIS/ Mexican Peso					
Asset – UDIS	1,652	8	49	-	1,709
Liability – Mexican Peso	794	7	3	-	804
	858	1	46	-	905
Swaps Mexican Peso/UDIS					
Asset – Mexican Peso	794	7	(4)	-	797
Liability – UDIS	1,652	9	31	-	1,692
	(858)	(2)	(35)	-	(895)
Swaps YEN/ Mexican Peso (1)					
Asset – YEN	5,454	2	1,650	(345)	6,761
Liability – Mexican Peso	384	3	1,669	-	2,056
	5,070	(1)	(19)	(345)	4,705
Interest rate Swaps					
Asset – U.S. dollar	-	322	10,251	(1)	10,572
Liability – U.S. dollar	-	308	9,782	(113)	9,977
	-	14	469	112	595
Interest rate Swaps					
Asset – Mexican Peso	541	1,231	31,115	(50)	32,837
Liability – Mexican Peso	541	1,226	30,802	(48)	32,521
	-	5	313	(2)	316
Net position for trading purposes	5,071	17	778	(228)	5,638
Swaps for hedging purposes:					
Fair value hedge:					
Swaps UDIS/ Mexican Peso					
Asset – UDIS	22,733	230	1,191	(3)	24,151
Liability – Mexican Peso	19,010	72	665	-	19,747
	3,723	158	526	(3)	4,404
Swaps Mexican Peso/UDIS					
Asset – Mexican Peso	13,090	72	1,351	3	14,516
Liability – UDIS	17,004	229	2,706	-	19,939
	(3,914)	(157)	(1,355)	3	(5,423)
Swaps U.S. dollar / Mexican Peso					
Asset – Dólar americano	1,521	3	(45)	-	1,479
Liability – Mexican Peso	1,322	4	(61)	-	1,265
	199	(1)	16	-	214
Swaps Mexican Peso/ U.S. dollar					
Asset – Mexican Peso	3,541	30	694	1	4,266
Liability – U.S. dollar	3,562	53	1,279	(3)	4,891
	(21)	(23)	(585)	4	(625)
interest rate swap					
Asset – Mexican Peso	21,000	2,821	49,557	(16)	73,362
Liability – Mexican Peso	21,000	1,672	46,005	1	68,678
	-	1,149	3,552	(17)	4,684
Total fair value hedge	(13)	1,126	2,154	(13)	3,254
Cash flow hedge:					
Swaps U.S. dollar / Mexican Peso					
Asset – U.S. dollar	210	-	15	-	225
Liability – Mexican Peso	206	1	(7)	-	200
	4	(1)	22	-	25
Swaps Mexican Peso/ U.S. dollar					
Asset – Mexican Peso	4,432	43	(165)	-	4,310
Liability – U.S. dollar	5,975	78	79	-	6,132
	(1,543)	(35)	(244)	-	(1,822)
Total cash flow hedge	(1,539)	(36)	(222)	-	(1,797)
Net position for hedging purposes	**$ (1,552)**	**$ 1,090**	**$ 1,932**	**$ (13)**	**$ 1,457**

As of December 31, 2022, there are guarantees granted in cash, in relation to derivative financial operations for $160 See (Note 13), which are reported in the item Debtors for collateral granted in cash. Likewise, cash guarantees were received for $4,638, which are reported in the Creditors for collateral received in cash caption. The interest paid during the year amounts to $272 and those collected to $76 (Note 28). The constitution of guarantees does not distinguish between trading and hedging operations.

The derivative financial instruments traded by the Bank carry liquidity, market, credit and legal risks. The internal control policies and procedures to manage the risks inherent in operations with derivative financial instruments are described in Note 36.

As of December 31, 2022, a profit of $1 and $273 is recognized for the early expiration of the sale and purchase of derivative financial instruments for trading and hedging, respectively, (Note 29).

No discontinued cash flow hedge relationships were recorded in fiscal 2022, nor were embedded derivatives identified in the contracts entered into by the entity.

b. Interest rate swap and Japanese Yen for Mexican peso swaps

At December 31, 2022, this extinguishing amortizing cross currency swap operation reports a net valuation amounting to $5,050, in conformity with the internal valuation model authorized by the Comprehensive Risk Management Committee of Banobras.

This financial derivative instrument includes a clause of early extinction of rights and obligations linked to the possibility of nonperformance with regard to the external debt of the Federal Government, whose valuation at December 31, 2022 meant an unrealized loss amounting $1,692, respectively with a 0.00810273995366002% probability of nonperformance.

Beginning June 2018, it forms part of the operations for trading purposes portfolio, upon revoking the allocation of the hedge of the Japanese Yen bond issue, which mean the recognition of a deferred credit (valuation of the hedged item) that will be amortized in income in the remaining term of the issue of the bonds referred to above (December 2033).

11. Loan Portfolio

At December 31, 2022, the portfolio and credit commitments are made up as follows:

Statement of financial position.		
Total credit portfolio	$	557,073
Order accounts:		
credit commitments	$	46,804

As of December 31, 2022, the amount of irrevocable lines of credit not exercised recorded in memorandum accounts amount to $36,892 (Note 24 b). The Institution does not have recoverable lines of credit not exercised as of December 31, 2022.

a. Integration of the portfolio with credit risk Stages 1, 2 and 3 by type of credit

As of December 31, 2022, the loan portfolio is made up as follows:

	Capital	Interest	Valuation (1)	Total
Loan portfolio with stage 1 credit risk				
Commercial credits				
Business or commercial activity	$ 168,581	$ 2,220	$ (815)	$ 169,986
Financial entities	26,769	549	-	27,318
Governmental entities	345,762	2,094	(3,886)	343,970
Housing lending				
Medium class and residential	65	-	-	65
Loans granted as an Agent of the Federal Government	370	1	-	371
Total loan portfolio with stage 1 credit risk	541,547	4,864	(4,701)	541,710
Loan portfolio with stage 2 credit risk				
Commercial credits				
Business or commercial activity	1,298	11	-	1,309
Housing lending				
Medium class and residential	8	-	-	8
Total loan portfolio with stage 2 credit risk	1,306	11	-	1,317
Loan portfolio with stage 3 credit risk				
Commercial credits				
Business or commercial activity	13,913	66	-	13,979
Consumer lending	9	-	-	9
Housing lending				
Medium class and residential	57	1	-	58
Total loan portfolio with stage 3 credit risk	13,979	67	-	14,046
Total loan portfolio	$ 556,832	$ 4,942	$ (4,701)	$ 557,073

(1) This amount corresponds to the valuation of risks hedged in individual credits that are related to fair value hedges.

At December 31, 2022, the Institution does not present a credit portfolio valued at fair value.

The classification of the credit portfolio by grade and risk stage is presented in Note 12.

For the year ended December 31, 2022, interest and commissions in favor of the Institution for the loan portfolio amounted to $45,668 (Note 28).

b. Summary of the portfolio by currency

At December 31, 2022, the analysis of the loan portfolio by currency is as follows:

	Mexican Pesos	Valued Foreign currency	UDIS valued	Total
Loan portfolio with credit risk Stage 1:				
commercial credits				
Business or commercial activity	$ 141,178	$ 24,324	$ 5,299	$ 170,801
Financial entities	22,485	4,833	-	27,318
Government entities	343,275	-	4,581	347,856
Housing loans				
medium and residential	65	-	-	65
Loans granted as Agent of the Federal Government	-	371	-	371
	507,003	29,528	9,880	546,411
Valuation of hedged items Stage 1:				
Business or commercial activity	(1,362)	-	547	(815)
Government entities	(3,936)	-	50	(3,886)
Total valuation of hedged items Stage 1	(5,298)	-	597	(4,701)
Total Loan portfolio with credit risk Stage 1	501,705	29,528	10,477	541,710

	Mexican Pesos	Valued Foreign currency	UDIS valued	Total
Loan portfolio with credit risk Stage 2				
commercial credits				
Business or commercial activity	1,309	-	-	1,309
Housing loans				
medium and residential	8	-	-	8
Total loan portfolio with stage 2 credit risk	1,317	-	-	1,317
Total credit portfolio with credit risk Stage 3:				
commercial credits				
Business or commercial activity	9,283	4,696	-	13,979
consumer credits	9	-	-	9
Housing loans				
medium and residential	58	-	-	58
	9,350	4,696	-	14,046
Total loan portfolio	$ 512,372	$ 34,224	$ 10,477	$ 557,073

c. Loan portfolio with stage 3 credit risk

Age

As of December 31, 2022, the balance of the loan portfolio with Stage 3 credit risk is grouped in accordance with the date on which the loan portfolio was classified as such, by considering the following periods:

	Principal and interest				
Commercial credits	From 1 to 180 Days	From 181 to 365 Days	From 366 to 2 years	More than 2 years	Total
Business or commercial activity	$ 10,237	-	$ 1,373	$ 2,369	$ 13,979
consumer credits	-	-	-	9	9
Housing loans					
medium and residential	10	$ 2	3	43	58
	$ 10,247	$ 2	$ 1,376	$ 2,421	$ 14,046

Movements to loan portfolio with stage 3 credit risk

The movements presented by the loan with stage 3 credit risk during the fiscal year are summarized as follows:

Initial balance as of January 1, 2022 (Note 4)	$ 10,137
Increments:	
Transfer of credit portfolio with credit risk Stage 1 to Stage 3	3,638
Transfer of credit portfolio with credit risk Stage 2 to Stage 3	737
Decrements:	
Recoveries	39
Transfer of credit portfolio with credit risk Stage 3 to Stage 1	228
Transfer of credit portfolio with credit risk Stage 3 to Stage 2	3
Currency appreciation	196
Closing balance as of December 31, 2022	$ 14,046

d. Risk concentration analysis

i. Financing that constitutes a common risk

In conformity with Article 54 of the General Provisions Applicable to Credit Institutions, credits granted to the same person or group of persons who, for representing a common risk, are considered a single risk must be adjusted to the maximum limit resulting from applying the table shown.

Limit on percentage on basic capital	Level of capitalization
12%	From more than 8% and up to 9 %
15%	From more than 9% and up to 10%
25%	From more than 10% and up to 12%
30%	From more than 12% and up to 15%
40%	Of more than 15%

Financing that has an unconditional and irrevocable guarantee rating, which covers the principal and accessories, granted by a foreign financial institution or entity that has a minimum investment grade, among other things, may exceed the maximum limit applicable to the financing entity in question, but in no case may they represent more than 100% of the basic capital of the Institution, for each person or group of persons that constitute common risk.

At December 31, 2022, the Institution complies with the limits described above.

ii. Main financing for own account[4]

Upon considering the guidelines of Article 53 of the Provisions, no borrower or economic group exceeds 40% of the basic capital under the common risk criterion nor 100% to the borrowers defined in subsections II and III of that Article. Moreover, in accordance with the provisions in subsection I, the three main borrowers subject to concentration limits do not exceed 100% of the basic capital of the Institution, which amounted to $76,427 as of September 30, 2022.

The maximum amount of financing payable by the 3 main borrowers, whose sum must not exceed 100% of the basic capital, amounted to $49,706.1 y $33,937.52 respectively, which represented 65.0% and 45.2% of the basic capital, as appropriate.

As of December 31, 2022, the Institution maintains 23 financings granted in the amount of $782,336.1 (including financial instruments) that exceed 10% of the basic capital and that represent 10.2 times the basic capital of the institution.

iii. By economic sector

At December 31, 2022, the loan portfolio of the Institution, considering the activity of borrowers, is shown below:

	Amount	%
Federal Government (1)	$ 60,854	11%
State governments, decentralized public agencies and government-owned companies, agencies, and federal	268,737	48%
Other public financial entities	18,636	3%
Full-Service Banking	15,939	3%
Other private financial entities	11,379	2%
National entities	186,089	33%
Individual person	140	-
	561,774	100%
Valuation of hedged Items	(4,701)	
	$ 557,073	

4 Pursuant to the provisions of the last paragraph of Article 57 of the General Provisions applicable to Credit Institutions, in this section all references to basic capital or net capital correspond to the closing amount of the immediately preceding quarter.

(1) As of December 31, 2022, the portfolio payable by the Federal Government, including public development funds in the fiscal year, is summarized as follows:

	Principal	Interests	Total
Loans granted as an Agent of the Federal Government	$ 370	$ 1	$ 371
Portfolio for its own account	60,307	176	60,483
	60,677	177	60,854
Valuation of hedged items	(215)	-	(215)
	$ 60,462	$ 177	$ 60,639

iv. Classification by geographical area, considering concentration percentage

At December 31, 2022, the loan portfolio of the Institution, considering the region where its borrowers are located, is as follows:

Zone	Amount	% of concentration
Loan portfolio		
Qualifiable		
Central	$ 184,552	33%
North	134,337	24%
South	164,231	29%
Exempted:		
Central	60,854	11%
Reserved 0.5%:		
Central	17,800	3%
	561,774	100%
Valuation of hedged ítems	(4,701)	
	$ 557,073	

e. Analysis of Impaired Portfolio by economic group

The analysis of the impaired portfolio by Economic Group as of December 31, 2022 is summarized as follows:

Commercial credits	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Business or commercial activity	$ 491	-	$ 13,979	$ 14,470
Governmental entities	320	-	-	320
Consumer credit	-	-	9	9
Housing credit				
Medium class and residential	-	$ 6	58	64
Troubled loan portfolio	**811**	**6**	**14,046**	**14,863**
Non-troubled loan portfolio	545,600	1,311	-	546,911
Valuation of hedged ítems	(4,701)	-	-	(4,701)
	$541,710	$ 1,317	$ 14,046	$ 557,073

There was no business model reclassification in the loan portfolio of the Bank in fiscal 2022.

f. Restructured and renewed loan portfolio

As of December 31, 2022, the amounts of the restructured and renewed credit portfolio by Risk Stage, are integrated as follows:

	Stage 1 (A)	Stage 2 (B)	Stage 3 (C)	Total
Commercial credits				
Business or commercial activity	$ 89,632	$ 1,309	$ 10,238	$ 101,179
Governmental entities	130,536	-	-	130,536
	$ 220,168	$ 1,309	$ 10,238	$ 231,715

A) Restructured or renewed loan portfolios to which the criteria relative to portfolio with a stage 3 loan risk transferred were not applied, in accordance with paragraph 112 of Criterion B-6, “Loan portfolio” of exhibit 33 to the Provisions.

B) Restructured or renewed loan portfolios that were held in the Stage 2 credit risk portfolio, in conformity with paragraphs 100 to 108 of Criterion B-6, “Loan portfolio” of exhibit 33 to the Provisions.

C) Restructured or renewed loan portfolios to which the criteria relative to portfolio with a stage 3 loan risk transferred, in accordance with paragraph 99 and 110 of Criterion B-6, “Loan portfolio” of exhibit 33 to the Provisions.

Interest in memorandum accounts that was capitalized as a result of restructurings as of December 31, 2022 amounts to $420.

At December 31, 2022, restructured and renewed loans are recorded in performing portfolio and they do not have additional guarantees. At those dates, uncollected accrued interest arising from this portfolio amounts to $1,615.

g. Financial lease

At December 31, 2022, those payments that were made derived from operations that, under the financial lease modality, the Institution was obliged to acquire and assign their use to the lessee, have been recognized as part of the credit portfolio; whose balance is made up as follows:

Credit card	$ 22,264
Assets to be transferred under financial lease	109
formalized commitments	9,986
	$ 32,359

At December 31, 2022, the Institution did not enter into financial lease contracts.

h. Special Accounting Criteria (CCE)

On December 31, 2022, 1 credit has been incorporated into the temporary support program called CCE corresponding to Credits with business or commercial activity; the approved concepts correspond to the deferral of principal and interest payments, the financial impacts are detailed in Note 3.

i. Effective interest rate and amortized cost

The Institution took the facility granted by the CNBV in the determination of the amortized cost to continue to use that cost in fiscal 2022, in order to recognize accrued interest of the loan portfolio, contractual interest rate, as well as the straight-line method for the recognition of fees collected and transaction costs, in accordance with the provisions of Criterion B-6, Loan portfolio in effect up to December 31, 2021. The foregoing was notified to the CNBV pursuant to official letter OCI/101000/406/2021, dated December 10, 2021.

j. SPPI tests

The Internal Credit Committee of Banobras authorized the corresponding Business model and SPPI tests; therefore, the loan portfolio operations have been classified as financial Instruments for Collecting Principal and Interest, since they comply with the assumption that the cash flows of the contracts only correspond to the payment of principal and interest. In addition, the business model is designed to preserve the portfolio to collect contractual cash flows. The foregoing was notified to the CNBV.

12. Allowance for loan losses

The bank classifies its portfolio and establishes an allowance to cover credit risks associated with the recovery of its loan portfolio.

As of December 31, 2022, the balance of the preventive allowance for credit risks by Risk Stage, as a result of the rating of the qualifying portfolio, is analyzed as follows:

	Stage 1	Stage 2	Stage 3	Total
Commercial credits (a)				
Business or commercial activity (a.1)	$ 1,646	-	$ 3,329	$ 4,975
Financial entities (a.2)	150	-	-	150
Governmental entities (a.3)	1,638	-	-	1,638
Consumer credit (b)	-	-	9	9
Housing credit				
Medium class and residential (c)	-	$ 1	35	36
For guarantees and contingent lines of credit (d)	347	-	-	347
Effect of restructured and/or renewed loans (e)	78	19	6,609	6,706
For additional reserves: (II)				
By interest Stage 3	-	-	16	16
Recognized by the CNBV and Operational risks (i)	793	7	1,537	2,337
	$ 4,652	$ 27	$ 11,535	$ 16,214

(1) Includes operational risks.

I. Classification of the portfolio by degree of risk and stage.

As of December 31, 2022, the credit portfolio classified by grade and risk stage is presented below:

a. commercial credits

a.1 Business or commercial activity

	Stage 1		Stage 2		Stage 3	
	Exposure	Expected loss	Exposure	Expected Loss	Exposure	Expected loss
Degree of risk						
A-1	$ 87,938	$ 696	-	-	-	-
A-2	76,279	950	-	-	-	-
E	-	-	-	-	$ 3,742	$ 3,329
Total	$ 164,217	$ 1,646	-	-	$ 3,742	$ 3,329

a.2 Financial entities

	Stage 1		Stage 2		Stage 3	
	Exposure	Expected loss	Exposure	Expected loss	Exposure	Expected loss
Degree of risk						
A-1	$ 22,485	$ 49	-	-	-	-
B-2	4,833	101	-	-	-	-
Total	$ 27,318	$ 150	-	-	-	-

a.3 Governmental entities

	Stage 1		Stage 2		Stage 3	
	Exposure	Expected loss	Exposure	Expected loss	Exposure	Expected loss
Degree of risk						
A-1	$ 256,036	$ 1,297	-	-	-	-
A-2	18,157	203	-	-	-	-
B-1	1,687	21	-	-	-	-
B-2	382	8	-	-	-	-
B-3	2,985	98	-	-	-	-
C-1	17	2	-	-	-	-
C-2	73	9	-	-	-	-
Total	$ 279,337	$ 1,638	-	-	-	-

As of December 31, 2022, the balance of the preventive allowance in charge of Government Entities with risk grade A-1 amounts to $1,297 (not including restructured), includes the reserve in charge of the Federal Government at 0.5% for $157.

As of December 31, 2022, the Federal Government portfolio reserved at 0.5% amounts to $31,074.

b. Consumer credit

	Stage 1		Stage 2		Stage 3	
	Exposure	Expected loss	Exposure	Expected loss	Exposure	Expected loss
Degree of risk						
A-1 (*)	$ -	$ -	$ -	$ -	$ -	$ -
C-2 (*)	-	-	-	-	-	-
E	-	-	-	-	9	9
Total	$ -	$ -	$ -	$ -	$ 9	$ 9

(*) Amounts lower than one million Mexican pesos

c. Medium class and residential

	Stage 1		Stage 2		Stage 3	
	Exposure	Expected loss	Exposure	Expected loss	Exposure	Expected loss
Degree of risk						
A-1 (*)	$ 62	$ -	$ -	$ -	$ -	$ -
B-2 (*)	2	-	-	-	-	-
C-1 (*)	1	-	2	-	-	-
C-2	-	-	-	-	13	2
D	-	-	6	1	13	3
E	-	-	-	-	32	30
Total	$ 65	$ -	$ 8	$ 1	$ 58	$ 35

(*) Amounts lower than one million Mexican pesos.

d. Guarantees and contingent lines of credit

	Stage 1		Stage 2		Stage 3	
	Exposure	Expected Loss	Exposure	Expected Loss	Exposure	Expected Loss
Degree of risk						
A-1	$ 101,532	$ 297	$ -	$ -	$ -	$ -
A-2	12,402	50	-	-	-	-
B-1(*)	208	-	-	-	-	-
B-2(*)	33	-	-	-	-	-
Total	$ 114,175	$ 347	$ -	$ -	$ -	$ -

(*) Amounts lower than one million Mexican pesos.

e. At December 31, 2022, the restructured and renewed loans are integrated as follows:

	Stage 1		Stage 2		Stage 3	
	Exposure	Expexted loss	Exposure	Expexted loss	Exposure	Expexted loss
Commercial credits						
Business activity	$ 6,584	$ 39	$ 1,309	$ 19	$ 10,237	$ 6,609
Government entities	8,036	39	-	-	-	-
Total	**$ 14,620**	**$ 78**	**$ 1,309**	**$ 19**	**$ 10,237**	**$ 6,609**

II. Additional reserves

At December 31, 2022, the balance of additional reserves is made up as follows:

Additional estimates	Stage 1	Stage 2	Stage 3	Total
For interests in Stage 3	-	-	$ 16	$ 16
Recognized by the CNBV				
Governments of States and Municipalities (Global)	$ 71	-	-	71
Moral Persons (business activity)	722	$ 7	1,537	2,266
	$ 793	$ 7	$ 1,553	$ 2,353

At December 31, 2022, the balance of the portfolio in charge of the Federal Government excepted and reserved for 0.5% amounts to $60,854 and $52,800.

III. Qualified Portfolio Universe

The universe of the total rated portfolio as of December 31, 2022 amounted to $615,095, which includes the commercial portfolio, the reserved Federal Government portfolio reserved at 0.5%, the contingent portfolio, and the guarantees furnished with their induced credit, as well as consumer and housing lending.

At December 31, 2022, the universe of the rated portfolio is made up as follows:

	Stage 1	Stage 2	Stage 2	Stage 3
Qualified credit portfolio:				
Statement of financial position:				
Portafolio	$ 546,41	$ 1,317	$ 14,046	$ 561,774
Valuation of the hedged item	(4,70	-	-	(4,701)
Total portfolio in the Statement of financial position	541,71	1,317	14,046	557,073
Memorandum accounts	114,17	-	-	114,175
	655,88	1,317	14,046	671,248
Excepted Federal Government Portfolio	(60,85	-	-	(60,854)
Valuation of the hedged item	4,7	-	-	4,701
	(56,15	-	-	(56,153)
Qualified portfolio	$ 599,7	$ 1,317	$ 14,046	$ 615,095

IV. Preventive estimate for credit risks movements.

At December 31, 2022, the movements of the preventive allowance for credit risks by risk stage are summarized below:

	Stage 1	Stage 2	Stage 3	Total
Opening Balance January 1, 2022 (1) (Note 4)	$ 7,890	$ 4	$ 6,008	$ 13,902
More:				
Constitution by qualification	-	110	5,202	5,312
Less:				
Qualification reléase	(1,053)	-	-	(1,053)
More				
Additional estimates for the year (2)	1,109	-	1,362	2,471
Less:				
Release of additional estimates (3)	(3,294)	(87)	(1,037)	(4,418)
Total balance	$ 4,652	$ 27	$ 11,535	$ 16,214

(1) The Bank recognized the opening accrued financial effect derived from the first application of the new standard general methodology for rating the non-revolving consumer loan

portfolio, housing and consumer loan portfolio, as referred to in Section A of Sections One, Two, and Three of Chapter V, Title Two of the Resolution that modifies the General Provisions Applicable to Lending Institutions, published on March 13, 2020, in conformity with Transition Article three.

As on January 1, 2022, the opening accrued financial effect from applying the new standard methodology for rating the non-revolving consumer loan portfolio, housing and consumer loan portfolio was recognized pursuant to a decrease in the allowances for loan risks, by allocating the amount of $966 to the caption of "Prior year income" (Note 4).

The accumulated balance of the "Allowance for Loan Losses" amounts to $13,902 as of January 1, 2022.

That balance obtained in the amount of $13,902 from applying the standard is summarized as follows:

- **a.** Preventive reserves amounting to $9,541
- **b.** Interest reserves in stages 3 amounting to $77
- **c.** Provision for legal proceedings expenses amounting to $0.05
- **d.** Additional estimates recognized by the CNBV in the amount of $4,284 (Which include $24 for Operating Risks reported by Credit Bureaus).

(2) As of December 31, 2022, additional reserves were created recognized by the CNBV for risks not foreseen in the loan portfolio rating methodologies in the amount of $2,471.

(3) As of December 31, 2022, additional reserves were released recognized by the CNBV for risks not foreseen in the loan portfolio rating methodologies in the amount of $4,417.

The allowance for loan losses recorded in the Statement of comprehensive income as of December 31, 2022 amounts to $2,313.

V. Lines of credit not drawn down

As of December 31, 2022, the estimate corresponding to contingent irrevocable lines of credit not exercised and recorded in memorandum accounts amounts to $13.

f. Special Accounting Criteria (CCE)

As of December 31, 2022, the impacts on the preventive estimate for credit risks for incorporating credits into the temporary support program named CCE are discussed in detail in Note 3.

13. Other accounts receivable, net

At December 31, 2022, the caption of other receivables is summarized as follows:

VAT loan portfolio operations	$	3,749
Employee loans (1)		2,313
Debtors for collateral granted in cash (2)		160
Debtors for liquidation of operations		118
Other accounts receivables (3)		303
		6,643
Allowance for credit losses		(36)
Total Other accounts receivable (net)	$	6,607
Balance as an Agent of the Supporting Fund Mandate to States and Municipalities (FOAEM) (b)	$	1

(1) At December 31, 2022, employee's loans are summarized as follows:

Tipe of loan		Annual rate	Term
Short-term	$ 7	-	Up to 24 months
Medium-term	1,019	4%	Up to 6 years
Mortgage	778	4% the first 15 years and 6% the last 5 years	Up to 20 years
Special for savings	509	1%	Up to 6 years
	$ 2,313		

(2) The Institution furnished guarantees for derivative financial trading (swaps), which are determined based on the fair value of the instrument portfolio, and they are restricted with regard to their availability. At December 31, 2022, interest earned on these guarantees amounted to $76 (Note 28).

(3) At December 31, 2022, other accounts receivables are summarized as follows:

Other accounts receivables:	
Tax recoverable balances	$ 175
Other debts on derivative financial trading	21
Debtors for commissions on credit operation	16
Receivables for commissions on current trading activities	14
Trust company fees (a)	59
Others (b)	18
	$ 303

(a) As of December 31, 2022, trustee fees are made up as follows:

Concept	Balance 2021	High	Recoveries	Balance 2022
Trustee fees	$ 54	$ 494	$ 489	$ 59

(b) At December 31, 2022, the balance as an agent of the FOAEM mandate is included under the heading of others as follows:

Active balances:	
On their own	
Exchange fluctuation	$ 23
Total balances in charge of FOAEM	23
Passive balances:	
On their own	
Updating investment units	17
	17
By financial agent	
Updating investment units	5
Total balances in favor of FOAEM	22
Active as FOAEM mandate agent	$ 1

At December 31, 2022, the asset notional value corresponding to the liability in foreign currency of FOAEM operations is equivalent to 2 million USD and the liability notional value, relative to the asset in UDIS amounts to 2 million UDIS.

14. Foreclosed assets (net)

At December 31, 2022, the foreclosed assets are made up as follows:

Foreclosed assets		
Without restrictions:		
Furniture	$	1
Estate		25
Restricted:		
Estate		39
		65
Increase per update		1
Allowance for loss of value		(66)
	$	-

The Institution did not foreclose private property or real property during fiscal year 2022.

As of December 31, 2022, restricted assets are in the Property Management and Disposal Service (SAE) to be sold.

As of December 31, 2022, in accordance with the General Provisions Applicable to Lending Institutions (B-7 "Foreclosed assets"), the Institute creates estimates that recognize the potential losses of value due to the time elapsed of the foreclosed assets, in conformity with the tables shown below:

Reserve percentage	
Months elapsed from the award or dation in payment	Property
Up to 12	0%
More than 12 and up to 24	10%
More than 24 and up to 30	15%
More than 30 and up to 36	25%
More than 36 and up to 42	30%
More than 42 and up to 48	35%
More than 48 and up to 54	40%
More than 54 and up to 60	50%
More than 60	100%

Reserve percentage	
Months elapsed from the award or dation in payment	Movable assets, collection rights and investments in securities
Up to 6	0%
More than 6 and up to 12	10%
More than 12 and up to 18	20%
More than 18 and up to 24	45%
More than 24 and up to 30	60%
More than 30	100%

15. Advance payments and other assets (net)

As of December 31, 2022, this caption is comprised of the following items:

Deferred charges and prepaid expenses (1)	$	60
Deferred employee profit sharing (PTU) (Note 21)		1,812
Plan assets for employee benefits (Note 23)		2,122
	$	3,994

(1) Other assets, deferred charges, and intangibles are presented below:

Concept	January 1,2022	Additions	Applications	December 31, 2022
Service providers and supervisory boards	$ 120	$ 86	$ 146	$ 60

16. Property, furniture and equipment (net)

At December 31, 2022, this item is summarized as follows:

	Asset Value	Accumulated depreciation	Rates
Land	$ 168	-	
Buildings	468	$ 129	(1)
Furniture and office equipment	84	80	10%
Computer equipment	23	23	30%
Transportation equipment	9	9	25%
Total fixed assets	752	$ 241	
Net property, furniture and equipment	$ 511		

(1) These assets are depreciated in accordance with their estimated useful life.

At December 31, 2022, depreciation amounts to $7.

17. Permanent investments

At December 31, 2022, the balance of permanent investments is summarized as follows:

	% Stake	Cost of acquisition	Carrying value
Banco Nacional de Comercio Exterior, S.N.C.	0.0027%	-	$ 1
Banco Latinoamericano de Exportaciones	0.0370%	-	1
Corporación Mexicana de Inversiones de Capital, S. A. de C. V.	6.0000%	$ 68	72
		$ 68	$ 74

18. Deposit funding

At December 31, 2022, traditional deposits are summarized as follows:

Time deposit		
Money market (a)	$	385,219
Debt securities issued (b)		85,293
	$	470,512

(a) Time deposit - Money market

At December 31, 2022, this caption is summarized as follows:

Promissory notes with liquid yield at maturity (PRLV-Spanish acronym)	$	337,251
Certificates of deposit (1)		43,926
Term deposits in U.S. dollars		4,042
	$	385,219

At December 31, 2022, the issue of long-term PRLVs amounts to $5,792, and accrued interest amounts to $5,545.

(1) At December 31, 2022, the Institution has outstanding bank securities in local and foreign currency as follows:

	Number of Títles	Nominal value (ii)	Principal	Interest	Valuation hedged item (i)	Total
Certificates of deposit						
FBANOBRA (iii)	256,750,000	100 Mx Pesos	$ 25,497	$ 116	$ (689)	$ 24,924
FBANOBRAU	18,092,205	100 UDIS	13,835	166	464	14,465
FBANOBRAD	2,322,848	100 USD	4,531	6	-	4,537
	277,165,053		$ 43,863	$ 288	$ (225)	$ 43,926

(i) This amount corresponds to the valuation of risks hedged of financial liabilities that are subject to hedges with derivative financial instruments. That valuation is determined by the fair value of the risks hedged in hedging relationships.
(ii) The nominal value of the securities is the price at maturity of the issue for each outstanding security.
(iii) At December 31, 2022, the Institution maintains a zero coupon issue. At this same date, the Institution maintains an issue placed at a discount (Note 2t).

The rates and terms of the Time deposit are summarized below:

Issue in Mexican pesos:	Interes rate Divided by %	Terms divided by days
Securities exchange PRLVs	5.42 and 10.72	1 and 364
Long-term PRLV	16.74 and 19.58	5,400 and 6,420
Certificates of deposit:		
Mexican pesos	5.60 and 10.72	1 and 3,046
UDIS	2.13 and 4.47	20 and 10,172
Foreign currency	0.09 and 4.45	1 and 168
Deposits in US dollars	0.02 and 4.99	1 and 194

During fiscal year 2022, the Institution redeemed the PRLV titles that are detailed below:

			Official authorization Bank of Mexico	
Code	Number of titles	Redemption date	Office number	Office date
ILBANOBRA001DFP	2,138,648,319	January 21, 2022	OFI003-34840	November 22, 2021
ILBANOBRA002DFP	294,874,160	January 21, 2022	OFI003-34840	November 22, 2021
ILBANOBRA003DFP	196,783,977	January 21, 2022	OFI003-34840	November 22, 2021
ILBANOBRA001NLP	802,732,558	August 18, 2022	OFI003-36438	June 23, 2022
ILBANOBRA002NLP	103,271,000	August 18, 2022	OFI003-36438	June 23, 2022
ILBANOBRA003NLP	109,821,399	August 18, 2022	OFI003-36438	June 23, 2022
ILBANOBRA31282	1,181,000,000	August 18, 2022	OFI003-36437	June 23, 2022
ILBANOBRA31272	1,125,000,000	August 18, 2022	OFI003-36437	June 23, 2022
ILBANOBRA001NLB	1,403,895,809	August 18, 2022	OFI003-36437	June 23, 2022
ILBANOBRA003NL	1,196,000,000	August 18, 2022	OFI003-36437	June 23, 2022
ILBANOBRA004NL	1,429,893,258	August 18, 2022	OFI003-36437	June 23, 2022
ILBANOBRA005NL	74,329,692	August 18, 2022	OFI003-36437	June 23, 2022

As of December 31, 2022, the Institution did not redeem term deposit securities.

(b) Debt securities issued

At December 31, 2022, the Institution has outstanding bank values or securities in local and foreign currency as follows:

	Number of Títles	Nominal valuel (ii)	Principal	Interest	Valuation hedged item (i)	Cost of transaction	Total
Securities exchange certificate							
CDBANOB (iii	718,600,000	100 MX pesos	$ 71,836	$ 828	$ (1,787)	$ (28)	$ 70,849
CDBANOBU	11,637,535	100 UDI	8,899	62	61	(8)	9,014
	730,237,535		80,735	890	(1,726)	(36)	79,863
Securities outstanding abroad							
JBANOB (iv)	37	1,000,000,000YEN	5,454	2	-	(26)	5,430
	730,237,572		$ 86,189	$ 892	$ (1,726)	$ (62)	$ 85,293

(i) This amount corresponds to the valuation of risks hedged of financial liabilities that are subject to hedges with derivative financial instruments. That valuation is determined by the fair value of the risks hedged in hedging relationships.
(ii) The nominal value of the securities is the price at maturity of the issue for each outstanding security.
(iii) At December 31, 2022, the Institution maintains an issue of securities placed at a discount. Toward that end, a deferred charge was recognized for the difference between the nominal value and the amount of cash received, which are shown in the liability that gave rise thereto for purposes of presentation. (Note 2t)
(iv) Interest generated on the issue in Japanese yens are payable semi-annually on June 29 and December 29 every year, at a 3% fixed annual rate for 30 years of validity of the issue.

The rates and terms of the Negotiable instruments are summarized below:

Securities exchange certificates	Interest rate Divided by %	Terms divided by days
Mexican pesos	5.16 and 10.78	8 and 3,611
UDIS	3.04 and 3.96	4,162 and 5,320

During fiscal 2022, the Institution did not anticipate redeem debt securities issued early.

At December 31, 2022, the Institution is authorized by the CNBV to perform preventive registrations of its issues in the securities section of the National Securities Register under the generic modality.

As of December 31, 2022, the amount of commissions paid and other expenses amounted to $5,361 (Note 28).

The amortized amount of the discount at this date is integrated, as follows (Note 28):

Promissory notes with liquid yield at maturity (PRLV-Spanish acronym)	$ 997
Certificates of deposit (CEDES)	57
Securities exchange certificates (CEBURES)	12
	$ 1,066

At December 31, 2022, the Institution did not designate Financial Instruments Payable (IFP) to be valued at fair value.

At December 31, 2022, interest expenses for deposit funding and the discount for debt placement amounted to $33,223 (Note 28). As of that same date, the issuance and transaction costs amount to $62.

19. Interbank loans and from other agencies

At December 31, 2022, interbank loans and from other agencies are summarized as follows:

Immediately due and payable:	
Call Money (a)	$ 13,359
Short-term:	
Loans from Banxico (b)	9,006
Loans as an Agent of the Federal Government (c)	35
Loans for its own account (d)	1,162
	10,203
Valuation of hedged items (1)	13
	10,216
Long-term:	
Loans as an Agent of the Federal Government (c)	334
Loans for its own account (d)	13,603
	13,937
	$ 37,512

(1) Some of the financial liabilities of the Institution are subject to foreign exchange rate risk and/or interest rate hedges with derivative financial instruments. The amount on valuation is determined by the fair value of the hedged risks.

(a) Call Money

At December 31, 2022, call money received is summarized as follows:

	Mexican pesos				
Currency	Principal	Interest	Total	Rate	Term
Mexican pesos	$ 330	-	$ 330	10.45%	3 days
Mexican pesos	350	-	350	10.50%	3 days
Mexican pesos	1,500	-	1,500	10.51%	3 days
Mexican pesos	10,000	$ 3	10,003	10.52%	3 days
Mexican pesos	1,000	-	1,000	10.65%	3 days
U.S. dollar	176	-	176	4.30%	4 days
	$ 13,356	$ 3	$ 13,359		

(b) Loans from Bank of Mexico

At December 31, 2022, loans from Banco de Mexico are summarized as follows:

	Mexican pesos				
Currency	Principal	Interest	Total	Rate	Term
Mexican pesos	$ 2,000	$ 2	$ 2,002	10.50%	31 days
Mexican pesos	5,000	3	5,003	10.50%	5 days
Mexican pesos	2,000	1	2,001	10.52%	28 days
	$ 9,000	$ 6	$ 9,006		

(c) Loans as an Agent of the Federal Government

At December 31, 2022 loans as an Agent of the Federal Government are summarized as follows:

Short-term

	Loan number	Term of funding in years	Date of loan´s formalization	Principal balance (thousand USD)	Outstanding balance interest (thousands USD)	Total Outstanding balance (thousands USD)	Outstanding balance Mexican pesos	Last applicable rate
Natixis Bank:								
PROTOCOLS (i)	n/a	31	Jan 26,81	1,765	36	1,801	$ 35	(*)1.75%

(*) Average rate.
(i) Contracted in euros, which were translated into U.S. Dollars for purposes of presentation.

Long-term

	Loan number	Term of funding in years	Date of loan´s formalization	Principal balance (thousand USD)	Outstanding balance interest (thousandds USD)	Total Outstanding balance (thousands USD)	Outstanding balance Mexican pesos	Last applicable rate
Natixis Bank:								
PROTOCOLS (i)	n/a	31	Jan 26, 81	17,135	-	17,135	$ 334	(*)1.75%

(*) Average rate.
(i) Contracted in euros, which were translated into U.S. Dollars for purposes of presentation.

At December 31, 2022, the Institution does not have credits that have not been drawn down as a Financial Agent of the Federal Government.

(d) Loans for its own account

As of December 31, 2022, loans for its own account are summarized as follows:

Short-term

	Loan number	Term of funding in years	Date of loan´s formalization	Principal balance (thousands USD)	Outstanding interest balance (thousands USD)	Total outstanding balance (thousands USD)	Outstanding balance Mexican pesos	Last applicable rate
(i)	1744-BID	25	Mar 06, 07	6,470	1,056	7,526	$ 147	(*)10.67%
(ii)	1214-OC-ME-BID	25	Oct 25, 99	1,301	22	1,323	26	4.06%
(ii)	1383-OC-ME-BID	25	Mar 10, 02	2,391	80	2,471	48	(*)4.04%
(ii)	1744-OC-ME-BID	25	Mar 06, 07	393	28	421	8	2.33%
(ii)	2053-BID	25	Sep 09, 07	14,692	1,348	16,040	313	(*)2.37%
(ii)	2550-BID	25	Nov 29, 11	14,593	402	14,995	292	4.21%
(ii)	3313-BID	25	Dec 10, 14	3,060	1,134	4,194	82	(*)3.39%
(ii)	96291-BIRF	19	Jul 21, 10	6,202	15	6,217	121	0.75%
(ii)	7883-BIRF	19	Jul 21, 10	5,137	50	5,187	101	3.31%
(ii)	8386-BIRF	17	Jun 13, 14	1,203	16	1,219	24	3.16%
				55,442	4,151	59,593	$ 1,162	

(*) Average rate.
(i) Contracted in Mexican pesos.
(ii) Contracted in US dollars.

On February 1, 2022, loan 7230 was paid off for an outstanding balance of $39.

Long term

	Loan number	Term of funding in years	Date of loan´s formalization	Outstanding balance (thousands USD)	Total outstanding balance (thousands USD)	Unpaid balance Mexican pesos	Last applicable rate
(i)	1744-BID	25	Mar 06, 07	53,889	53,889	$ 1,051	(*)10.67%
(ii)	1214-OC-ME-BID	25	Oct 25, 99	1,301	1,301	25	4.06%
(ii)	1383-OC-ME-BID	25	Mar 10, 02	7,193	7,193	140	(*)4.04%
(ii)	1744-OC-ME-BID	25	Mar 06, 07	3,340	3,340	65	2.33%
(ii)	2053-BID	25	Sep 09, 07	161,607	161,607	3,153	(*)2.37%
(ii)	2550-BID	25	Nov 29, 11	188,066	188,066	3,669	4.21%
(ii)	3313-BID	25	Dec 10, 14	208,240	208,240	4,063	(*)3.39%
(ii)	96291-BIRF	19	Jul 21, 10	37,210	37,210	727	0.75%
(ii)	7883-BIRF	19	Jul 21, 10	26,780	26,780	522	3.31%
(ii)	8386-BIRF	17	Jun 13, 14	9,611	9,611	188	3.16%
				697,237	697,237	$ 13,603	

(*) Average rate.
(i) Contracted in Mexican pesos.
(ii) Contracted in US dollars.

Maturities of long-term loans:

Amortizations of capital of long-term loans in the next six fiscal years are presented below (Mexican pesos)

Year	Amortization
2024	$ 1,123
2025	4,429
2026	1,051
2027	1,012
2028	1,022
2029	1,030
More than 6 years	4,270
	$ 13,937

At December 31, 2022, the Institution maintains credit lines contracted that have not been drawn down that amount to $276. As of that same date, interest expenses for interbank loans amount to $1,322 (Note 28).

At December 31, 2022, there are no proprietary guarantees furnished for financing received.

20. Leases

As of December 31, 2022, right-of-use assets and lease liabilities reflected in the Statements of financial position amount to:

Right-of-use assets	$ 18
Lease liabilities	(20)
	$ (2)

Lease liabilities are made up as follows:

Initial recognition	$	9
Additions		22
Interests		2
Principal pyment		(13)
	$	20

The maturity analysis is detailed below:

December, 2022	$	1
Financial year 2023		13
Financial year 2024		6
	$	20

As of December 31, 2022, depreciation expense recognized in the Statement of comprehensive income amounts to $13.

As of December 31, 2022, the Institution has recognized interest expenses on its lease liabilities in the amount of $2, as part of its interest expenses in the Statement of comprehensive income.

As of December 31, 2022, payments made for lease liabilities amount to $13.

The incremental rate will not undergo changes until 2024.

21. Taxes on profits

a. Income Tax (ISR - as per its acronym in Spanish)

For fiscal year 2022, in conformity with the Income Tax Law (LISR), the income tax rate is 30%.

Income tax for theyear is calculated by using the currently income tax rate on taxable income.

The LISR sets forth requirements and limits for applying some deductions, such as the deduction of payments which, in turn, are exempt income for workers, contributions for creating or increasing pension fund reserves, contributions to the Mexican Institute of Social Security payable by the work that are paid by the employer.

b. Employee Profit Sharing

The LISR sets forth that the base for the determination of PTU is the taxable income determined for the calculation of Income tax for the fiscal year, considering certain adjustments considered in LISR itself.

Beginning with the reform to the Federal Labor Law (LFT-as per its acronym in Spanish) published in the Official Daily Gazette on April 23, 2021, subsection VIII of Article 127 sets forth that the amount of profit sharing will have a maximum three-month limit on the salary of the worker or the average profit sharing received in the last three years. The amount applied will be that which is most beneficial to the worker. in addition, a maximum limit on a one-month payment of PTU to their workers is set out for companies whose activities of the sector are related to granting loans, in accordance with Article 127 of the LFT.

At December 31, 2022, there is an PTU pending payment of $3.

c. ISR recorded in results

As of December 31, 2022, the income tax recorded in results is integrated as follows:

Income tax payable		-
Deferred Income Tax	$	(487)
Taxes on earnings	$	(487)

Deferred taxes related to items recognized in OCI		
Valuation of financial instruments to buy or sell	$	(96)
Remeasurement of defined employee benefits		(66)
Valuation of derivative financial instruments to hedge cash flows		4
Total income tax recognized in OCI	$	(158)

Deferred taxes shown in the Statement of financial position are integrated as follows:

Deferred assets:		
Allowance for loan losses	$	4,432
Provisions for various obligations		138
Employee retirement benefits and termination benefits		54
Tax loss		1,630
Opening commissions for deferring		984
Appraisals credit titles		799
		8,037
Deferred tax liabilities:		
Derivative financial instruments		864
Deferred PTU		582
Property, equipment and other deferred charges		106
		1,552
Net, deferred tax asset	$	6,485

The reconciliation of the net deferred tax asset is as follows:

Initial balance as of January 1, 2022 (Note 4)	$	5,840
Income tax recognized in the Statement of comprehensive Income		(487)
Income tax recognized in OCI		(158)
Closing balance as of December 31, 2022	$	6,485

The amounts of movements are presented with negative sign, since they represent a gain in the Statement of comprehensive income.

As of December 31, 2022, an allowance for deferred taxes on earnings was not required since it is considered that the realization of the asset that generate the deferred tax benefits at the end of said years is considered probable. As of December 31, 2021, the foregoing item amounted to $106.

d. Effective Income Tax Rate

A reconciliation is presented between the tax rate set forth by the LISR and the effective tax rate recognized in the accounting by the Institution:

Profit before income taxes	$	146
More (less):		
Deductible Annual Inflation Adjustment		(6,410)
Non-deductible expenses		378
Net cost of the work period		748
Changes in the estimate of deferred assets		(353)
Accumulated income from loan reserves for the year 2013		884
Retrospective adjustments for accounting changes		784
Effect of fair value of financial instruments for collect or sell registered in OCI collect or sell registered in OCI		1,019
Change in value of accumulated tax losses		816
Other items		(162)
Loss before tax		(2,150)
ISR statutory rate		30%
Total income tax		(645)
ISR comprehensive items results		158
Total ISR recognized in the Statement of comprehensive income	$	(487)
Effective rate		(333.6)%

As of December 31, 2022, the Institution maintains accumulated tax losses for a total of $5,435, whose right to be amortized against future profits, expires as shown below:

Year of the Loss		Amount	Year of prescription
2020	$	2,104	2030
2021		2,177	2031
2022		1,154	2032
Total	$	5,435	

The annual tax return for fiscal 2022 has not been filed with the tax authorities yet. The term for filing that return expires on March 31, 2023; therefore, the information reported can be modified. If applicable, it is estimated that the effects will not significantly modify the result.

e. Deferred PTU

As of December 31, 2022, the deferred PTU shown in the Statement of financial position is integrated as follows:

Deferred assets:		
Opening commissions for deferring	$	328
Provisions for various obligations		46
Allowance for loan losses		1,947
Employee retirement benefits and termination benefits		18
Total gross deferred assets		2,339
Deferred liabilities:		
Derivative financial instruments		288
Valuation credit titles		204
Fixed assets, provisions and other deferred charges		35
Total deferred liabilities		527
Deferred PTU asset (Note 15)	$	1,812

At December 31, 2022, the deferred PTU from OCI is made up of the following items:

Concept		Deferred PTU
Financial instruments to collect or sell	$	(32)
Derivative financial instruments for cash flow hedges		1
2022		(22)
Total	$	(53)

f. Reviews by tax authorities

On July 12, 2022, an amended tax return was filed to correct the taxable income corresponding to fiscal year 2015, pursuant to the observations made by the Tax Administration Service in exercising its inspection attributions. An amount of $203 and $67 was recognized in the caption of retained earnings for Income Tax and Employee Profit Sharing of fiscal year 2015, respectively. In this respect, on August 3, 2022, that authority, through the Central Inspection Center of the Financial Sector, notified the conclusion of the review carried out for fiscal year 2015.

Thus far, Banobras is not undergoing a review process performed by the Tax Administration Service concerning its compliance with its tax obligations.

22. Sundry creditors and other accounts payable

a. Contributions payable

At December 31, 2022, this item is integrated as follows:

Taxes withheld and transferred	$	3,818
Social security contributions		29
	$	3,847

b. Sundry creditors and other accounts payable

As of December 31, 2022, sundry creditors and other accounts payable are made up as follows:

Provisions for other obligations	$	478
Various creditors		233
Applications to be carried out		185
	$	896

23. Employee benefits

- **Defined benefit pension plan**

A reconciliation between defined benefit obligations (DBO) and plan assets (PA) at December 31, 2022 with the liabilities recognized in the SStatement of financial position at this date is presented below:

Provisions for:	Pension plan	Seniority premium	Other benefits at retirement	Termination benefits	Total
DBO	$ (11,090)	$ (24)	$ (11,143)	$ (10)	$ (22,267)
Fair value of plan assets	13,011	8	9,368	-	22,387
Insuficient of plan assets (PA)	1,921	(16)	(1,775)	(10)	120
Unrecognized actuarial losses	909	-	961	-	1,870
Projected net asset (liability) recognized in the SStatement of financial position (Note 15)	$ 2,830	$ (16)	$ (814)	$ (10)	$ 1,990

The summary of the net cost for the period ended December 31, 2022 is shown below:

	Pension plan	Seniority premium	Other benefits at retirement	Termination benefits	Total
Summary of net cost of the period 2022:					
Labor cost of present service	$ 22	$ 1	$ 43	-	$ 66
Financial cost	938	1	906	$ 1	1,846
Expected return on plan assets	(1,052)	-	(737)	-	(1,789)
Actuarial loss, net	197	2	364	(2)	561
Net cost for the period	$ 105	$ 4	$ 576	$ (1)	$ 684

At December 31, 2022, employee benefits for vested and nonvested benefit obligations are shown below:

	Pension plan	Seniority premium	Other benefits at retirement	Termination benefits	Total
Provisions for:					
Vested benefit obligation	$ 10,918	$ 18	$ 10,399	-	$ 21,335
Nonvested benefit obligation	172	6	744	$ 10	932
DBO	$ 11,090	$ 24	$ 11,143	$ 10	$ 22,267

Changes in the present value of defined benefit obligations (DBO) are shown below:

	Pension plan	Seniority premium	Other benefits at retirement	Termination benefits	Total
DBO					
Present value of the DBO at January 1, 2022	$ 12,161	$ 20	$ 11,616	$ 11	$ 23,808
Labor cost of present service	22	1	42	1	66
Financial cost	938	1	906	1	1,846
Actuarial gain or loss on the obligation	(1,149)	4	(820)	(3)	(1,968)
Transfer to restmen investments	(882)	(2)	(601)	-	(1,485)
Present value of the DBO at December 31, 2022	$ 11,090	$ 24	$ 11,143	$ 10	$ 22,267

Plan assets are recognized at their fair value and the changes are as follows:

	Pension plan	Seniority premium	Other benefits at retirement	Termination benefits	Total
Changes in fair value of plan assets (PA)					
Fair value of PA at January 1, 2022	$ 13,578	$ 10	$ 9,502	-	$ 23,090
Expected return on PA	518	-	467	-	985
Benefits paid	(882)	(2)	(601)	-	(1,485)
Transfer to Restricted Investments (1)	(203)	-	-	-	(203)
Fair value of PA at December 31, 2022	$ 13,011	$ 8	$ 9,368	-	$ 22,387

(1) As of December 31, 2022, a balance amounting to $203 was transferred to restricted investments that are in the caption of Cash and cash equivalents (Note 7), due to excess proceeds of the PAs.

The expected rate of return of the PA is determined by calculating an annual fixed rate equivalent to the present value of the flow of projected annual long-term obligations obtained a spot rate vector (nominal) at their respective term, issued by a price vendor. The extrapolation of the curve after the last known rate is maintained constant. MX FRS D-3 "Employee benefits" sets forth that interest income of the PA must be determined by multiplying the discount rate used in the valuation for the fair value (FV) recognized.

At December 31, 2022, the Institution did not make ordinary contributions.

As of December 31, 2022, either directly or in repo, of the total assets of the plan, 33.60% are invested in government debt securities and savings protection bonds; 25.08% are invested in debt securities issued by development banks and other public sector entities; and 41.32% are invested in debt securities issued by states and municipalities, private sector companies with high credit ratings, investment funds and variable income. As of December 31, 2022, the term of the investments fluctuates between 3 days and 49 years.

As of December 31, 2022, the return on these investments amounted to $1,490.

Below is annual information regarding the different defined benefit obligations, corresponding to 2022 and the last four years:

	2022	2021	2020	2019	2018
Pensions at December 31:					
Defined benefit obligation, DBO	$ (11,090)	$ (12,161)	$ (13,146)	$ (12,449)	$ (10,813)
Fair value of plan assets, PA	13,011	13,578	13,739	13,074	12,043
Funded status	$ 1,921	$ 1,417	$ 593	$ 625	$ 1,230
Seniority premium at December 31:					
Defined benefit obligation, DBO	$ (24)	$ (20)	$ (20)	$ (18)	$ (18)
Fair value of plan assets, PA	8	10	13	10	16
Funded status	$ (16)	$ (10)	$ (7)	$ (8)	$ (2)
Other benefits at retirement:					
Defined benefit obligation, DBO	$ (11,143)	$ (11,616)	$ (11,889)	$ (11,015)	$ (9,334)
Fair value of plan assets, PA	9,368	9,502	9,777	8,870	8,495
Funded status	$ (1,775)	$ (2,114)	$ (2,112)	$ (2,145)	$ (839)
Termination benefits:					
Defined benefit obligation, DBO	$ (10)	$ (11)	$ (14)	$ (15)	$ (19)
Funded status	$ (10)	$ (11)	$ (14)	$ (15)	$ (19)

The period for amortizing the different outstanding items with regard to the remaining average labor life of workers is presented below:

	Term
Seniority Premium	4
Pension plan	19
Other benefits at retirement	19
Indemnifications	4

The rates used at December 31, 2022 in the actuarial study were as follows:

	Rate
Long-term inflation	3.70%
Discount rate	9.10%
Rate of expected salary increase	3.70%
Expected rate of return on plan assets	9.10%
Long-term average inflation rate	6.81%

At December 31, 2022, with regard to accrued retirement benefit obligations arising from medical attention costs, the effect of increasing the rate half a percentage point, which is used of the cost of other benefits considering that the remaining assumptions do not change, amounted to $11,793. The effect for reducing half a percentage point in the same assumptions would amount to $10,549.

- **Defined contribution pension plan**

The Institution has an irrevocable trust fund to cover these obligations. The contributions of the Institution to the new Plan are made bi-weekly and they are equivalent to 10% of the salary of the worker in the terms defined in the CGT and 50% of the contributions made voluntarily by the worker, applicable up to 5% of the salary referred to above.

A reconciliation between the DBO and PA at December 31, 2022, with the liabilities recognized in the SStatement of financial position at those dates is presented below:

	Other benefits at retirement	Termination benefits	Seniority premium	Death benefits	Total
Provisions for:					
Defined Benefit Obligations (DBO)	$ (146)	$ (154)	$ (24)	$ (37)	$ (361)
Fair value of plan assets (PA)	460	-	3	31	494
Plan assets insufficient	314	(154)	(21)	(6)	133
Unrecogrized Actuarial gains (loss)	(1)	-	-	-	(1)
Projected net asset (liability) recognized in the SStatement of financial position (Note 15)	$ 313	$ (154)	$ (21)	$ (6)	$ 132

The summary of the net cost for the period ended December 31, 2022 is shown below:

	Death benefit	Seniority premium	Other benefits at retirement	Termination benefits	Total
Summary of net cost of the period 2022:					
Labor cost of present service	$ 9	$ 4	$ 23	$ 32	$ 68
Prior labor service cost	-	-	-	-	-
Financial cost	2	1	11	10	24
Expected return on plan assets	(2)	-	(35)	-	(37)
Actuarial (gain) loss, net	(3)	-	(11)	(3)	(17)
Net cost for the period	$ 6	$ 5	$ (12)	$ 39	$ 38

The expected rate of return of the APs is determined by calculating a fixed annual rate equivalent to the present value of the flow of annual obligations projected in the long term, obtained with a vector of spot rates (nominal) at their respective term, issued by a provider of prices. The extrapolation of the curve after the last known rate is held constant. NIF D-3, Employee benefits, establishes that the interest income of the APs must be determined by multiplying the discount rate used in the valuation by the recognized fair value (VR) of the APs.

At December 31, 2022, the Institution did not make ordinary contributions.

At December 31, 2022, either directly or in repo, of the total assets of the plan, 38.01% are invested in government debt securities and savings protection bonds; 21.15% are invested in debt securities issued by development banks and other public sector entities; and 40.84% is invested in debt securities issued by private sector companies with high credit ratings, investment funds and equities. As of December 31, 2022, the term of the investments fluctuates between 3 days and 49 years.

The real yield of these investments as of December 31, 2022, amounted to $67.

At December 31, 2022, with respect to the accrued obligations for retirement benefits derived from medical care costs, the effect of increasing the rate used for the cost of other benefits by half a percentage point, considering the other assumptions without change, would amount to $171; the effect of decreasing half a percentage point in the same cases would amount to $126.

- **OCI**

As of December 31, 2022, Banobras has recognized actuarial losses and gains in comprehensive income, whose caption of remeasurement of defined employee benefits represents a net amount of $(221), which is summarized as follows (Note 26).

Actuarial losses due to change of standard according to the facility regulation issued by the CNBV	$	(1,402)
Actuarial gains on debentures		1,999
Actuarial gains losses in the return of plan assets		(818)
Net movement as of December 31, 2022	$	(221)

24. Commitments and contingent liabilities

a. Legal proceedings and complaints

As of December 31, 2022, the Institution has been defendant in labor, civil, mercantile, and administrative lawsuits in the amount of $376. In addition, there are lawsuits whose execution has not been filed by the jurisdictional authority in the amount of $235.

b. Contingent assets and liabilities

At December 31, 2022, contingent assets and liabilities are summarized as follows:

Irrevocable itmes of credit not exercised	$	36,892
Loan guarantees		17,043
	$	53,935

c. Credit commitments

At December 31, 2022, the credit lines not exercised by clients of the Institution amount to $46,804.

25. Stockholders' Equity

a. Capital stock

As of December 31, 2022, the capital stock is made up of Certificates of Equity Contribution (CAP's) of series "A" and "B", with expression of the nominal value of one peso, as indicated below:

Series "A" CAP's	11,806,239,398
Series "B" CAP's	6,082,002,114
	17,888,241,512

As of December 31, 2022, the paid-in capital stock is as follows:

		Historical		Restated
Common fixed capital stock:				
Series "A" CAPs	$	13,200	$	15,461
Series "B" CAPs		6,800		7,965
		20,000		23,426
Unissued common fixed capital stock:				
Series "A" CAPs		1,394		1,394
Series "B" CAPs		718		718
		2,112		2,112
	$	17,888	$	21,314

* The sums and some amounts can vary due to rounding-off effects.

b. Capital movements

- Contributions for future capital increases

On December 19, 2022, the Institution received from the Federal Government, through the SHCP, the amount of $1,551, as a contribution for future capital increases, for its subsequent formalization and increase in paid-in capital stock.

c. Restrictions on stockholders' equity

Subscription of CAPS

Series "A" CAPS may only be subscribed by the Federal Government, through the issue of a unique security, without coupons, nontransferable, and at no time may its nature or rights conferred to the Federal Government be change. Series "B" CAPS may be subscribed by the Federal Government, state and municipality governments, and by Mexican individuals and legal entities, in strict compliance with the provisions of article 33 of the Credit Institutions Law.

Legal reserve

In accordance with the Internal organic law of the Institution, its Regulations, and Credit Institutions Law, 10% of the net income of every fiscal year should be separated to create and increase the legal reserve until that reserve is equivalent to paid-in capital stock. The reserve may not be disposed of to pay dividends or for any other purpose, except for capitalization. At December 31, 2022, the legal reserve amounts to $3,982, which is presented in the caption of Capital reserves of stockholders' equity.

Other reserve

As of December 31, 2022, the Institution has created another capital reserve that amounts to $1,970.

d. Other comprehensive income (OCI)

The movements of the OCI during the financial year 2022 are shown below:

	Valuation of financial instruments to collect or sell	Valuation of derivative financial instruments to hedge cash flows	Remediation of employee benefits
Balance as of January 1, 2022 (Note 4):	$ 367	$ 3	$ (1,631)
Recycling Effect on Results	-		544
Net movement of the period	(319)	13	(221)
Deferred Income Tax and PTU	128	(5)	88
Net balance as of December 31, 2022	$ 176	$ 11	$ (1,220)

e. Availability of earnings

The Mexican LISR sets forth that dividends drawn against earnings that have paid corporate income tax will not be subject to the payment of that tax. Toward that end, taxable income should be controlled through the Net Taxable Income Account (CUFIN, its acronym in Spanish). Dividends paid that exceed the CUFIN balance will be subject to the payment of income tax in the terms of currently enacted legislation at the date on which dividends are distributed.

The LISR sets forth that legal entities must carry a paid-in capital account (CUCA, its acronym in Spanish) that will be increased by capital contributions, net premiums on subscribed for shares made by stockholders, and they will be reduced by capital decreases carried out. The balance of that account should be restated for inflation occurring in Mexico at each fiscal year end, and when capital contributions or decreases are made.

In conformity with the LISR, the amount of a capital decrease will not be subject to income tax when that reduction does not exceed the CUCA balance. The difference will be considered a distributed earning, which determines the tax assessed at the applicable rate on the date of the decrease, in conformity with the procedure provided for in the currently enacted LISR.

At December 31, 2022, the balances of tax accounts are summarized as follows:

CUCA (Restated Paid-in Capital Account)	$ 88,111
CUFIN (Net Taxable Income Account)	$ 22,890

f. Capitalization ratio (unaudited information)

At the end of December 2022, Banobras determined that the net capital regarding assets subject to credit risk was $272,088, and $382,261 regarding assets subject to total risk.

The integration of the capitalization index as of December 31, 2022, is as follows:

Millions of Mexican pesos and %	Coefficient credit	Coefficient total
Basic capital	29.68	21.13
Supplementary capital	1.12	0.80
Net capital	30.80	21.93
Assets at risk	272,088	382,261

* The sums and some amounts can vary due to rounding-off effects.

g. Summary of net capital (unaudited information)

At December 31, 2022, Banobras estimates that net capital amounted to $83,815. The amount of basic and complementary net capital is detailed below:

Stockholders' Equity	$ 84,270
Less:	
Investments in stock of financial entities	2
Investments in stock of non-financial entities	36
Intangibles and deferred expenses or costs	10
Gain or loss on valuation of cash flow hedging instruments	16
Basic capital	3,443
General preventive reserves for credit risks	79,653
Supplementary capital	3,047
Net capital	3,047
Stockholders' Equity	$ 83,815

* The sums and some amounts can vary due to rounding-off effects.

h. Assets at risk (unaudited information)

At December 31, 2022, Banobras estimates that total assets at risk amounted to $382,261, of which 71% comprised assets at credit risk.

The evolution between December 31, 2022 of assets at market and credit risk is shown below:

Concepto	Amount of equivalent positions	Capital requirement
Transactions in Mexican pesos at a nominal rate	$ 44,883	$ 3,591
Trades with debt securities in Mexican pesos with a surcharge and a reviewable rate	13,964	1,117
Transactions in Mexican pesos at a real rate or denominated in UDIS or UMAS	11,162	893
Transactions in foreign currency at a nominal rate	6,289	503
Positions in UDIS or with a return based on the NCPI	4	-
Foreign exchange positions or with a yield indexed to the exchange rate	6,877	550
Positions in shares with a return indexed to the price of a share of group of shares	135	11
	$ 83,315	$ 6,665

Weighted assets subject to credit risk by risk group

Concepto	Risk weighted Assets	Capital requirement
Group II (weighted al 0%)	-	-
Group II (weighted al 20%)	$ 31	$ 2
Group III (weighted al 20%)	7,193	575
Group III (weighted al 100%)	8	1
Group IV (weighted al 20%)	6,570	526
Group V (weighted al 20%)	45,913	3,673
Group V (weighted al 50%)	5,467	437
Group V (weighted al 115%)	637	51
Group V (weighted al 150%)	5,374	430
Group VI (weighted al 70%)	6	-
Group VI (weighted al 75%)	-	-
Group VI (weighted al 100%)	2,383	191
Group VII_A (weighted al 20%)	8,376	670
Group VII_A (weighted al 50%)	3,959	317
Group VII_A (weighted al 100%)	153,479	12,278
Group VII_A (weighted al 150%)	146	12
Group VII_B (weighted al 20%)	4,854	388
Group VII_B (weighted al 100%)	5,745	460
Group VIII (weighted al 115%)	4,491	359
Group IX (weighted al 100%)	10,819	866
Group X (weighted al 1250%)	-	-
Securitizations with a Risk 1 Rating (weighted al 45%)	4,763	381
Securitizations with a Risk 3 Rating (weighted al 140%)	1,873	150
	$ 272,088	$ 21,767

The sums and some amounts can vary due to rounding-off effects.

i. Evaluation of variations in interest income, and in economic value (unaudited information)

The economic value of capital was placed in the amount of $133.818 millions as of December 2022 closing. Stockholders' equity was placed in the amount of $83,178. The main cause of this increase was the contributions for future capital increases made in the amount of $1,551 made in December 2022.

Based on the Interest rate risk management methodology of the balance and liquidity risk, the economic value of capital divided by capital was placed at 160.9% in the fourth quarter of 2022.

The foregoing is due to stockholders' equity, which grew at a value higher than economic value.

The Economic Value of Capital considers an adjustment on credit risk due to the expected loss of the economic value of the portfolio, derivatives, and trading securities. All credits are considered to reach maturity in accordance with contractual flows[5].

The expected loss represented 10.42% with respect to the economic value of capital this quarter. In addition, the expected loss of the economic value of the portfolio with respect to its economic value, that is, PEC/VEC represents 2.29%. That expected loss considers the estimate of credit risk in each one of the flows receivable from the portfolio at present value.

As of the closing of the fourth quarter, the duration of assets was placed at 401 days and liabilities at 372 days, which results in a DGAP of 0.19 years upon being weighted by economic value. This increase is explained primarily by a major increase in the duration of assets (28 days) with regard to the increase in the duration observed in the liabilities (18 days), which impacted the total duration of the balance. The positive sign of the DGAP indicates that the Economic Value of Capital of Banobras is sensitive to increases in interest rates.

Descriptive statistics of the main credit and market risk exposure metrics are presented below:

Concept	
PE/VE (total)	10.42%
PE/VE (portfolio)	2.29%
DGAP (years)	0.19

VE: Economic Value
PE: Expected Loss of the economic value of capital
DGAP: Duration of the Balance.

Note: The loan portfolio, as well as the funding and risk mitigation structure through OTC derivatives, are the elements that have the highest impact on the financial margin and risk of the Balance of Banobras. OTC derivatives are specifically highlighted by the Extinguishing Cross Currency Swap that has an associated contingency due to its extinction clause, which is currently recognized at an accounting level, and it is valued through a methodology approved by the CAIR.

26. Other comprehensive income (OCI)

As of December 31, 2022, the OCI shown in the comprehensive income for the year is broken down as follows:

Other comprehensive results:		
Valuation of financial instruments receivable or sold	$	(319)
Deferred ISR and PTU		128
		(191)
Valuation of derivative financial instruments to hedge cash flows		13
Deferred ISR and PTU		(5)
		8
Remediation of employee benefits		(221)
Deferred ISR and PTU		88
		(133)
Total OCI	$	(316)

[5] Due to the nature of the operations of Banobras, there are no term deposits without maturity; therefore, liquidity risk assumptions are not established

27. Segment information

The activities that comprise the operation of the Institution are identified in the following segments:

a)	Financial agent of the Federal Government	Credit transactions with resources from international financial agencies and those carried out under the Mandate concept in which the Institution acts for account and by order of the Federal Government itself under the terms and specific conditions set out by the SHCP, as well as the applicable standards according to the source of resources.
b)	First-tier credit transaction	Financing is granted directly or via guarantees to the states and municipal governments, their agencies and trusts, as well as to the private sector for carrying out projects and infrastructure and public service works. Those granted to financial brokers are also included, which represent 4.9% of the total loan portfolio.
c)	Treasury and investment bank operations	Operations whereby the Institution participates for its own account and as a complementary support for its clientele on money markets (repos on debt securities), foreign exchange market (buy and sell of currency), derivative financial instruments trading (for trading purposes, and custody of securities. Moreover, they are considered investments in securities and cash and cash equivalents generated by banking activity.
d)	Trustee services and technical assistance	Due to the trust, the trustor (Federal Government, states, municipal governments, their agencies, and trusts, as well as the private sector) allocate certain assets toward a determined legal purpose, by delegating the realization of that purpose to a trustee institution or bank.
e)	Other operating income (expenses)	Activities oriented to support the states, municipal governments, their agencies and trusts, as well as the private sector, through specialized sectoral assistance, advisory services for financial strengthening, evaluation, and investment project structuring, etc., in order to best channel investments for the development of infrastructure and public services of the country.

At December 31, 2022, operating income, as well as the reconciliation with the Statement of comprehensive income for each segment are shown below:

Results	Financial Agent of the Federal Government (a)	First-tier credit transaction (b)	Treasury and investment bank operations (c)	Trustee services (d)	Technical assistance	Others	Total
Interest income							
Cash and cash equivalents	-	-	$ 895	-	-	-	$ 895
Investments in financial instruments	-	-	32,659	-	-	-	32,659
Repo operations	-	-	1,119	-	-	-	1,119
Loan portfolio							
Stage 1	$ 10	$ 44,764	-	-	-	-	44,774
Stage 2	-	15	-	-	-	-	15
Stage 3	-	434	-	-	-	-	434
Commissions for granting Credit	-	445	-	-	-	-	445
Interest and returns in favor from collaterals in operations	-	-	8,827	-	-	-	8,827
Trading derivative financial instruments							
Dividends from instruments that qualify as equity financial instruments	-	-	21	-	-	-	21
	10	**45,658**	**43,521**	**-**	**-**	**-**	**89,189**
				-	-	-	
Interest expenses							
Term deposits	-	(28,225)	-	-	-	-	(28,225)
For interbank loans and from other organisms	(6)	(1,316)	-	-	-	-	(1,322)
Interest, transaction costs and discounts charged for the issuance of financial instruments that qualify as liabilities	-	-	(5,816)	-	-	-	(5,816)
Repo operations	-	-	(29,362)	-	-	-	(29,362)
Loss on valuation	-	(635)	-	-	-	-	(635)
Global deposit account without movements	-	-	-	-	-	-	-
Lease liabilities	-	-	-	-	-	$ (2)	(2)
interest and income charged from collaterals in operations	-	-	(272)	-	-	-	(272)
Expenses from trading derivative financial instruments	-	-	(8,451)	-	-	-	(8,451)
	(6)	**(30,176)**	**(43,901)**	**-**	**-**	**(2)**	**(74,085)**
Financial margin	**4**	**15,482**	**(380)**	**-**	**-**	**(2)**	**15,104**
Allowance for loan losses	-	(2,313)	-	-	-	-	(2,313)
Financial margin adjusted by credit risks	**4**	**13,169**	**(380)**	**-**	**-**	**(2)**	**12,791**
Commissions and fees charged	-	226	7	$ 428	$ 176	161	998
Commissions and fees paid	-	-	(50)	-	-	-	(50)
Intermediation result:							
Result for valuation at fair value:							
Negotiable financial instruments	-	82	(96)	-	-	-	(14)
Financial instruments to collect or sell							
Derivative financial instruments for trading purposes	-	-	117	-	-	-	117
Derivative financial instruments for hedging purposes and hedged item	-	-	(1,035)	-	-	-	(1,035)
Estimation of credit losses for investments in financial instruments	-	-	(310)	-	-	-	(310)
Result for sale:							
Operations of financial instruments	-	-	382	-	-	-	382
Foreign Exchange	-	-	6	-	-	-	6
Total intermediation result	**-**	**82**	**(936)**	**-**	**-**	**-**	**(854)**
Other income (expenses) of the Operation	-	132	-	-	-	(9,649)	(9,517)
Administration and promotion expenses	(2)	(1,021)	(83)	(277)	(22)	(1,817)	(3,222)
Operation result	**2**	**12,588**	**(1,442)**	**151**	**154**	**(11,307)**	**146**
Income taxes	-	-	-	-	-	(487)	(487)
Total income tax	**-**	**-**	**-**	**-**	**-**	**(487)**	**(487)**
Result before discontinued operations	**2**	**12,588**	**(1,442)**	**151**	**154**	**(10,820)**	**633**
discontinued operations	-	-	-	-	-	-	-
Net result	**2**	**12,588**	**(1,442)**	**151**	**154**	**(10,820)**	**633**
Other Comprehensive Results							
Valuation of financial instruments to buy or sell	-	-	(191)	-	-	-	(191)
Valuation of derivative financial instruments to hedge flows	-	-	8	-	-	-	8
Remediation of employee benefits	-	-	-	-	-	(133)	(133)
Comprehensive income	**$ 2**	**$ 12,588**	**$ (1,625)**	**$ 151**	**$ 154**	**$ (10,953)**	**$ 317**

(a) At December 31, 2022, both assets and liabilities as Financial Agent of the Federal Government amount to $371 and $369. For the year ended December 31, 2022, cash flows amount to $(92) and $(84), respectively.

(b) At December 31, 2022, assets and liabilities for first-tier credit operations are made up of $540,484 and $422,362. As of December 31, 2022, cash flows are made up of $39,422 and $5,290, respectively.

(c) Assets and liabilities related to treasury operations in investments, cash and cash equivalents, securities, repurchase agreements and derivative trading operations as of December 31, 2022, are made up of $469,320 and $511,329. As of December 31, 2022, cash flows are made up of $44,810 and $71,683, respectively.

28. Financial margin

For the year ended December 31, 2022, the summary of financial margin, which is presented in the Statement of comprehensive income, is as follows:

Financial margin	Local Currency and UDIS	Foreign currency	Total
Interest income:			
Cash and cash equivalents	$ 895	-	$ 895
Investments in financial instruments (a)	32,479	$ 180	32,659
Repo operations (d)	1,119	-	1,119
Credit/Loan portfolio:			
Stage 1(b)	43,204	1,570	44,774
Stage 2(b)	12	3	15
Stage 3(b)	425	9	434
Commissions for granting credit (c)	328	117	445
Interest and returns in favor from collaterals in operations	75	1	76
Trading derivative financial instruments	7,410	1,341	8,751
Dividends from instruments that qualify as equity financial instruments	-	21	21
	85,947	3,242	89,189
Interest expenses:			
Term deposits (e)	(28,090)	(135)	(28,225)
Interbank loans and other organizations (f)	(950)	(372)	(1,322)
Interest, transaction costs and discounts charged for the issuance of financial instruments that qualify as liabilities (e)	(5,633)	(183)	(5,816)
Interest and returns on repo agreements (g)	(29,362)	-	(29,362)
Loss on valuation	(499)	(136)	(635)
Lease liabilities	(2)	-	(2)
Interest and income charged from collaterals in operations	(268)	(4)	(272)
Expenses from trading derivative financial instruments	(7,337)	(1,114)	(8,451)
	(72,141)	(1,944)	(74,085)
Financial margin	$ 13,806	$ 1,298	$ 15,104

(a) Interest on each one of the categories of investments in securities are summarized as follows:

Negotiable financial instruments	$ 561
Financial instruments to collect or sell	29,760
Financial instruments to collect principal and interest	1,979
Interest from hedging operations	359
	$ 32,659

(b) Interest on credit portfolios with Stage 1 and Stage 2 credit risk are made up as follows:

Loan portfolio with credit risk Stage 1:

Commercial credits:		
Business or commercial activity	$	14,072
Financial entities		2,057
Government entities		28,122
Housing loans		
Medium and residential		4
Loans granted as Agent of the Federal Government		10
Interest from hedging operations		509
	$	44,774
Loan portfolio with credit risk Stage 2:		
Commercial credits:		
Business or commercial activity	$	15

As of December 31, 2022, the interest of the loan portfolio with Stage 3 credit risk corresponds entirely to Loans with business or commercial activity for $434.

(c) The commissions on the initial granting of loans are summarized as follows:

Commercial credits:		
Business or commercial activity	$	379
Financial entities		5
Governmental entities		61
	$	445

(d) At December 31, 2022, interest earned in repos transactions correspond to goverment debt for $1,119.

(e) Interest on deposit funding is summarized as follows:

Interest on Time deposit	$	26,808
Interest on debt securities issued		363
Discount on debt placement		1,054
		28,225
Interest, transaction costs and discount for issuance of financial instruments that qualify as liabilities		5,349
Interest from hedging operations		455
Debt placement discount		12
	$	5,816

(f) Interest on interbank loans and other organizations is made up as follows:

International organizations	$	462
Call Money		272
Loans to financial institutions		9
Banxico Auctions		502
Coverage cost (FOAEM)		4
Interest from hedging operations		73
	$	1,322

(g) The interest charged in repo agreements is made up as follows:

Governmental debt	$	28,333
Bank debt		1,002
Other debt securities		27
	$	29,362

29. Intermediation income

For the years ended December 31, 2022, it is summarized as follows:

Result for valuation at fair value:		
Negotiable financial instruments	$	(14)
Valuation of derivative financial instruments and items attributable to the hedged risk (1)		(918)
Estimation of credit losses for investments in financial instruments (2)		(310)
		(1,242)
Result for purchase and sale:		
Operations of negotiable financial instruments		(33)
Operations of financial instruments to collect or sell		141
Derivative financial instrument operations		274
		382
Result for foreign exchange trading		6
	$	(854)

(1) The compensation of changes in the fair value of hedging derivatives and hedged positions is analyzed below:

Profit from changes in valuation of hedging instruments	$	2,881
Loss from changes in valuation of items covered		(2,711)
	$	170

(2) The amount of the estimate of credit losses for investments corresponds to financial instruments to collect principal and interest.

30. Commissions and fees income

At December 31, 2022, the integration of commissions and fees income is as follows:

Fiduciary activities (1)	$	428
Credit operations		226
Custody and administration of assets		7
Other commissions:		
Provision of services		176
Contingent operations (2)		161
	$	998

(1) The obligation to comply by Banobras in trustee activities consists of rendering comprehensive fiduciary services that include legal, administrative, financial, accounting, and tax services relative to each fiduciary business. The service is provid during the effectiveness of the agreements.

(2) The obligation to comply by Banobras in contingent operation consists of being the guarantor of the operation that gives rise to the agreement throughout the effectiveness thereof. The

guarantee is serviced over time; therefore, the performance obligation of these operations remains available for the customer at the time it is required.

31. Other operating income (expenses)

At December 31, 2022, this caption is summarized as follows:

Public use taxes in benefit of the Federal Government (1)	$	(9,651)
Interest on loans to personnel		78
Recoveries		54
Affectations to the estimate due to irrecoverability or difficult collection		4
Other expenses of the operation		(2)
	$	(9,517)

(1) Pursuant to the Federal Revenues Act and Rules of Operation of the SHCP, the SHCP instructs the Institution to pay public use taxes for furnishing the sovereign guarantee of the Federal Government.

In the fiscal year of 2022, payments were made for the use of $7,000 and $2,651 (Official No. 368.-118/2022 of September 23, 2022 and No.368.-167/2022 of November 25, 2022, respectively).

32. Assets placed in trust or legal custody

At December 31, 2022, Assets placed in trust or mandate are summarized as follows:

Trust deeds	$	18
Management trusts		429,300
		429,318
Pension plan trusts		23,707
Mandates		9,706
Total assets placed in trust or legal custody	$	462,731

The Institution's income from its trust activities as of December 31, 2022, amounted to $428 (Note 30).

33. Assets placed in trust or legal custody

As of December 31, 2022, the Assets in custody or under administration are made up as follows:

Securities in custody and administration (a)	$	214,618
Others		6
	$	214,624

a. Securities in custody and administration

As of December 31, 2022, the balances of the securities in custody and administration are made up as follows:

Fair

	Titles		Value
PRLV	106,891,066,003	$	92,443
BPAS	276,036,175		15,278
BONDESD	21,369,338		2,140
BONDESF	647,414,373		64,679
BONDESG	50,000,000		4,965
Deposit certificates	13,392,526		1,341
Stock certificates	135,516,303		17,850
CEBIC	162,077		139
BPAGT	4,850,000		488
BPAG	13,089,025		1,308
Fixed rate bonds	11,223,781		1,035
UDIBONOS	7,341,299		5,383
EUROBONOS	10,000		71
	108,071,470,900		207,120
Actions	4,590,728,453		7,498
Total	112,662,199,353	$	214,618

As of December 31, 2022, the Institution did not receive Guarantees for repurchase agreements.

As of December 31, 2022, the amount of income from custody and administration services amounts to $7 (Note 30).

34. Collateral in repos transactions repos

At December 31, 2022, collateral in repos transactions repos shown in memorandum accounts are as follows (at fair value):

Collateral received by the entity (1)	$	13,006
Collateral received and sold or furnished as a guarantee by the entity (2)	$	13,006

a. The securities pursuant to these trades are bank and government securities, which were received and delivered as collateral in repos agreements repos (Note 9), which are summarized as follows:

BONDES LF	$	9,005
BONDES LD		3,501
CEBIC		500
	$	13,006

(2) Collateral received and sold or furnished as a guarantee by the Institution are summarized as follows:

BONDES LF	$	9,005
BONDES LD		3,501
CEBIC		500
	$	13,006

35. Other memorandum accounts

At December 31, 2022, balances of Other memorandum accounts are summarized as follows:

Amounts contracted with derivative financial instruments	$	761,255
Induced credit:		
Guarantees amount not guaranteed		62,831
Guarantees amount guaranteed		14,452
Guaranteed refinancing		2,590
Contingent lines amount not guaranteed		242
Contingent lines guaranteed amount		34
Passive lines of credit pending availability		5,383
Bad loans applied against the preventive allowance for credit risks		782
Other registration accounts (a)		35,300
	$	882,869

(a) The other registry accounts are integrated as follows:

Tax bases	$	10,089
Remeasurements for defined employee benefits		18,024
Financial budget result		6,064
Obligations for claims		612
Other registration accounts		511
	$	35,300

36. Comprehensive risk management (unaudited information)

In conformity with the regulatory requirements of the CNBV, relative to the disclosure of the policies and procedures established by credit institutions for comprehensive risk management, the measures that have been implemented by Banobras management, as well as the corresponding quantitative information are presented below.

Objective of Comprehensive Risk Management

The objective of comprehensive risk management at Banobras is to identify, analyze, measure, oversee, limit, control, disclose, and treat the distinct risks to which the Institution is exposed in its operation, in order to protect its capital, by applying mitigation strategies and the integration of the risk culture in the daily operation, and establish mechanisms that enable it to carry out its activities with risk levels in accordance with its desired risk profile, net capital, and operating capacity.

Structure and organization of the function for Comprehensive Risk Management

The Board of Directors has created a Comprehensive Risk Management Committee (CAIR), whose objective is to manage risks to which the Institution is exposed and oversee that transactions carried out are adjusted to the desired risk profile, the Framework for comprehensive risk management, as well as the overall risk exposure limits approved by the Board of Directors.

Board of Directors

The Board of Directors, among the duties, approves and reviews the following at least once a year: i) the Desired risk profile of the Institution; ii) the Framework for comprehensive risk management; iii) levels of liquidity and capitalization with regard to its objectives and strategic plan; iv) the contingency financing plan; and v) the overall risk exposure limits by type of risk and the mechanisms for carrying out corrective actions.

In addition, the Board must oversee the implementation of the strategy of Comprehensive Risk Management.

Comprensive Risk Management Committee (CAIR)

The CAIR is the Committee to which the Board of Directors delegates the responsibility of risk management of the Institution.

This Committee has attributions on the overall risk management of the Institution, whether they are recorded in or outside of the balance and on the control of market risks, credit, liquidity, operating and unquantifiable risks.

The CAIR is presided over by the Chief Executive Officer and it is comprised of: i) at least one member of the Board; ii) at least an independent risk expert appointed by the Board; iii) the Chief Executive Officer; iv) the person responsible of the unit for comprehensive risk management; v) the person responsible for the internal audit duty of the Institution; and vi) the persons who are invited for that purpose, who may participate with the right to speak, but not to vote.

The duties of the CAIR are governed by the General Provisions applicable to Credit Institutions (Provisions) issued by the CNBV.

Deputy General Directorate of Risk Management

The deputy General Directorate of Risk Management (DGAAR-Spanish acronym) supports the General Administrative Office, the CAIR, and the Board of Directors in the comprehensive risk management process to contribute to preserve the capital of the Institution and sustainability of the operation.

The DGAAR and its officers are independent at both a functional and organizational level of the business areas to avoid conflicts of interest and assure an appropriate separation of responsibilities.

Systems

The DGAAR has different systems and applications that facilitate the measurement, oversight, and control of the risks to which the Institution is exposed. They generate the corresponding reports and they have backup and control mechanisms that allow for the recovery of date from the systems used in risk management and valuation models.

The systems and applications that the DGAAR has are described in the sections corresponding to each type of risk.

Hedging policies and/or risk mitigation

Banobras operates with derivative financial instruments on over-the-counter-markets to hedge:

- Risks created by liabilities when such liabilities are in rates, exchange rates, and/or terms that differ from the assets to which capital is going to be allocated.

- Risks created by assets when such liabilities are in rates, exchange rates, and/or terms that differ from the liabilities that fund that position.

- The interest rate and/or currency to clients of Banobras as a tool for strengthening its credit structure in the terms in which it is authorized by the distinct government agencies of the governance of Banobras.

- The balance of Banobras and/or improve the costs of funding structurally, by taking advantage of the prevailing conditions on financial markets.

Strategies and processes for overseeing the ongoing hedge effectiveness or risk mitigators

The *"Methodology for measuring hedge effectiveness in derivative financial instruments"* allows for quantifying the effectiveness with which derivative financial instruments mitigate or hedge the risk arising from its hedged items or primary positions. Hedge effectiveness reflects the degree in which the changes in fair value of a primary position or hedged item subject to risk factors are reversed or offset by the changes in the behavior of the instrument designated as a hedge.

The "Policies and procedures for measuring hedge effectiveness in derivative financial products" set forth the duties and responsibilities of the areas involved in the calculation and follow-up on hedge effectiveness with financial instruments contracted by Banobras, the criteria that is to be observed, as well as the motors or calculation tools and corresponding reports.

In addition, individual limits and specific limits are established for counterparty risk for limiting the concentration of hedges accepted. The mark-to-market of positions in favor of the Institutions are considered for financial derivatives trading.

Derivative collateral management

Banobras has derivative operations with counterparties that include financial and non-financial institutions; For mitigation in terms of exposure for operations with financial counterparties, there are contracts where collateral exchange is contractually established, in such a way that if the exposure with the counterparty under the contract exceeds the tolerances defined as thresholds and minimum amounts of transfers to the Institution, cash is received as collateral, and even in some cases, highly liquid instruments. Additionally, there is an operating framework for the derivatives table that considers restrictions through limits established based on term and rating.

The main collateral by amount is maintained with financial counterparties, especially Full Service Banking.

That collateral includes the following assets:

- Cash: MXN and USD
- National government securities denominated in MXN

Given the type of collateral, the measurement of concentration of hedges accepted does not apply.

Collateral assets are managed through the Ikos Guarantees system that contains the contractual parameters for each counterparty. It keeps the balance of each collateral and it calculates the margin calls daily, in accordance with the specific parameters applicable to each collateral.

For currency collateral, it is not necessary to value the balance thereof. Securities collateral is valued by using the price of the respective governmental value contained in the vector of the authorized price vendors. The processes for collateral management discussed above are described in the *Procedures Manual for Trading with Collateral*.

a) Credit risk

Banobras has an overall limit and specific credit risk exposure limits by line of business that must be aligned with the desired risk profile.

The overall limit measures the maximum credit risk exposure that Banobras is willing to assume, and it is determined by the sum of specific credit risk exposure limits. Specific credit risk exposure limits are determined for each group of possible creditworthy persons, including counterparties, considering the desired risk profile of the Institution, which is based on the target level of the capitalization ratio.

The limits described above are established by considering: i) an efficient allocation of capital; ii) the creditworthiness of borrowers; iii) current and potential capitalization requirements arising from new placements; and iv) net capital of the Institution.

In addition, maximum indebtedness limits (MIL) are established to control and measure credit risk individually, which are determined for each one of the operations in which Banobras participates. The risks corresponding to counterparty risk are included in those limits.

For purposes of granting credit, and financial guarantees, a risk premium is included in the credit rates associated with the operation of the Institution. Moreover, the estimate of the total loss is calculated in the VaR of the credit of the portfolio.

Concentration of Risk is controlled by establishing concentration and common risk limits, in accordance with the Provisions. Moreover, the charge of capital necessary is obtained to cover the expected loss that could be faced by Banobras due to the concentration of its private sector portfolio, financial brokers, productive state enterprises and companies.

Methodologies, Policies, and Procedures and Systems or Applications

i) **Maximum Indebtedness Limits (MIL)** Each methodology determines the MIL under a prudential criterion and through a quantitative and qualitative evaluation. The quantitative evaluation is based on the analysis of flows, financial statements, and creditworthiness, as well as the net financing ceiling in the case of MIL_{EyM}. The qualitative evaluation considers the analysis of various variables inherent of each line of business, among them, the ratings issued by rating agencies (when there is the practice of rating on the market), which serves to weight the results of the quantitative analysis. Limits are determined for: (i) states, FIMEM, and municipalities; (ii) water operating agencies; (iii) credits with own source of payment; (iv) companies; (v) financial brokers and non-financial counterparties (full service banking, foreign banking, multilateral banks, development banking, brokerage firms, multiple purpose financial institutions, bonding companies, insurance companies, state-owned productive enterprises, entities of the Federal Public Administration; and (vi) investment portfolio instruments. Weighting factors are considered for the determination of limits, which are obtained beginning with the Methodology for the determination of weighting factors by period and rating of the maximum indebtedness limits and risk indicators, in which the procedure for obtaining risk indicators is also included for following up on the credits granted to States and FIMEM, as well as borrowers of the private sector. Moreover, information of the probability of nonperformance obtained beginning with internal models is considered for the determination of MIL, which are documented in the Comprehensive Risk Management Manual of the Institution.

In addition, there is a methodology to determine the resources to be placed in a trust by the states and municipalities, which incorporates financial variables in its determination that consider the level of income to be placed in a trust and its volatility, as well as the profile of payments committed under stressful conditions.

To limit the credit risk of the counterparty of financial brokers, borrowers with their own source of payment, as well as states and municipalities, there are online controls and systems.

In addition, there is a methodology to determine the resources to be trusted by the states and municipalities, which in its determination incorporates financial variables that consider the level of income to be trusted and its volatility, as well as the profile of payments committed under conditions of stress.

Operating tolerances (thresholds) have been established contractually with regard to financial counterparties with which derivative financial trading has been agreed upon, so that if the market value of the operations portfolio exceeds that limit favorably for the Institution, it is received in cash guarantee and/or highly liquid instruments.

The follow-up on counterparty risk includes exposure with financial brokers and mark-to-market of positions in benefit of the Institution are considered for financial derivatives trading. Moreover, there are counterparty limits for Investment Portfolio Instruments that are subject to credit risk.

The "Policies and procedures for credit risk management" set out the policies and procedures for the determination of the overall, specific, and operating limits (MIL) of credit risk, including counterparty risk whereas the policies and procedures for the calculation of VaR credit, and concentration are set out in the "Policies and procedures for credit risk management", as well as for the timely monitoring of the credit quality ratings assigned by the rating agencies.

ii) **Calculation methodology of premiums and risk considerations.** Methodology for obtaining risk premiums for credits, financial guarantees, guaranteed refinancing, and contingent lines of credit granted by Banobras. Premiums and considerations include the collection of the expected loss, concentration risk, as well as a cost for not reviewing surcharges depending upon the product.

The expected loss is determined by the probability of nonperformance and the severity of the loss by type of borrower, various discount curves by rating, as well as actions to mitigate credit risk such as the existence of guarantees by endorsement, guarantors or additional sources of payment. The premium on concentration depends on the individual charge of capital for concentration set out in the "Methodology for loan portfolio risk management".

In addition, policies and procedures are established for the calculation of risk premiums in the "Policies and procedures for individual credit risk management". And there is a system for calculating credit risk premiums and financial guarantees.

iii) **Methodology for calculating the credit risk valuation adjustment (CVA)**. Methodology for calculating credit risk for financial instruments under which the possible potential loss of financial operations regarding credit risk is estimated, which is calculated as the probability of default due to the expected exposure of the set of financial operations of each counterparty, as well as the corresponding stress scenarios.

In addition, it incorporates the procedures for the calculation of Expected Positive exposure (EPE) to establish which are of a growing nature and the calculation of Wrong Way Risk (WWR), which measures possible adverse correlations between exposure and creditworthiness.

Policies and procedures for the calculation the CVA of are set out in the document "Policies and procedures for credit risk management".

iv) **Methodology for the determination of the limits and metrics of the desired risk profile of credit risk exposure.** Methodology for determining the structure of specific limits and the overall limit of credit risk exposure, as well as the criteria for the redistribution of limits and for the estimation of normal limits and consumption of limits. The methodology is included for estimating the desired risk profile and restriction level for credit risk metrics on capital consumption, seeking to complement the limit structure with regard to the composition of portfolios.

v) **Methodology for loan portfolio risk management.** The credit VaR indicates the unexpected major loss that could be observed in a portfolio (loan portfolio, financial instruments or investment portfolio) in a quarterly time horizon, with a 99% level of confidence.

The expected loss is the means of distribution of losses and gains, that is, it indicates an average of how much can be lost, and it is associated with the preventive reserves of the Institution against credit risks for the loan portfolio. The unexpected loss is the loss above the expected loss. The VaR in Banobras considers both the expected loss and the unexpected loss.

The methodology and the system are based on the Credimetrics model, which were appropriate for incorporating the essential characteristics of the main borrowers of Banobras (state governments, municipalities, and project with their own source of payment), as well as their correlations and recovery rates. Sensitivity tests are included for the analysis to determine the strength of capital in dealing with distinct scenarios in the creditworthiness of the borrowers of the portfolio, including extreme and systemic scenarios.

The portfolio concentration analysis is carried out at a consolidated level, by geographic region, institutional program and state. The calculation of portfolio concentration ratios is carried out to follow-up on concentration risk and its relationship with the value at risk and sufficiency of capital. Moreover, the concentration ratio is obtained for those positions that are of the balance of the institution (memorandum accounts). These concentration ratios correspond to the inverse of the Herfindahl-Hirschman ratio(IHH), with which the number of debtors is measured that proportionately have a higher value of the portfolio, as well as the Adjusted Diversification Ratio (IAD) that takes into account the number of elements in the Portfolio and which, therefore, is comparable between portfolios. In addition, the method is defined for calculating the charge of capital required to cover the loss that could be faced by Banobras for the concentration of its portfolio.

The policies and procedures established for determining the concentration of risk are carried out based on the guidelines set forth in the Provisions and information furnished by clients through the forms for detecting common risk in operations. These are documented in the: "Policies and procedures for loan portfolio risk management".

There is an application at Banobras for calculating the credit value at risk (credit VaR) and portfolio concentration ratio by line of business, geographic region, level of risk, and consolidated level, in conformity with the methodology currently approved by the CAIR.

Additionally, there is an application for the Identification of Common Risk that manages the information necessary to carry out the identification of this type of risk in credit operations, based on the information that the business areas register.

vi) Methodology for credit impairment of accounts receivable and financial instruments. Defines the model of the Expected Credit Loss (PCE) applicable to Accounts Receivable and Financial Instruments, in compliance with the definition of the Financial Reporting Standard (NIF) C-16 Impairment of financial instruments receivable, IFCPI and IFCV. Likewise, it defines the risk stages of the Financial Instruments to Collect Principal and Interest and Financial Instruments to Collect and Sell.

vii)Loan Portfolio Rating Methods based on the General Provisions Applicable to Lending Institutions. Preventive estimates for credit risks[6] are determined by applying the general methodology for rating the loan portfolio set forth in the General Provisions applicable to lending institutions (Provisions), published by the National Banking and Securities Commission (CNBV). Moreover, additional estimates are created recognized by the CNBV to cover risks that are not provided for in the Provisions.

The portfolio subject to qualification includes direct or contingent loans granted to federal entities, municipalities and their decentralized agencies, which correspond to investment projects with their own source of payment, to financing of natural/moral persons with business activity and to financial entities, in terms of section XXIX, article 1 and article 110 of the Provisions, likewise, includes guarantees granted to state or municipal governments and legal entities with business activity, which are qualified based on articles 111 to 115 of the Provisions; Federal Government financing is reserved in accordance with article 112.

[6] Refers to the constitution of preventive reserves, due interest and legal expenses.

Based on the aforementioned Provisions, the reserves of the consumer and mortgage loan portfolio in charge of former employees are also determined based on articles 91 and 99, respectively.

viii) **Methodology for the determination of additional preventive reserves.** Additional preventive reserves that are created for covering risks that are not provided for in the Provisions are applied to projects of the private sector that are in a construction stage and FIMEM credits. Moreover, criteria are defined for the release of additional preventive reserves for private sector projects.

b) Market risk

For monitoring, and controlling market risk exposure, Banobras has a market risk limit structure for each one of its operating desks and/or lines of business, which must be aligned with the desired risk profile of Banobras on a consolidated basis.

Operating desks (*Front Office*) are free to structure business and portfolios in their investment/operating policies, by considering the structure of market risk exposure limits.

The limit structure consists of: i) overall market risk exposure, which is set out for the consolidated position of the Institution; ii) specific market risk exposure limits set out for each operating desk and/or line of business; iii) concentration limits that are intended to control the amount traded of determined instruments or financial assets; and iv) trader limits that are set forth to delimit risk exposure in carrying out financial operations that are assigned in accordance with the level of responsibility of the traders and type of operation.

Methodologies, Policies, and Procedures and Systems or Applications

i) **Market value at risk (VaR).** The VaR is an estimate of the expected loss on a time horizon and with a given level of confidence. Market risk is calculated by applying the Conditional VaR methodology (CVaR), with a time horizon of one business day, a window of 500 data and a 97% confidence level, which is described in the *"Methodology for the calculation of market risk at value (VaR).*

The calculations of CVaR are obtained for each one of the operating desks (money market, currencies, and derivatives), which consolidate the position of Banobras. That calculation considers securities classified as trading, repurchase transactions repos, as well as for securities and derivative instruments classified as for trading.

For the valuation of market instruments and derivative instruments in the portfolios of Banobras, the Institution has the *"Methodology for valuation of market instruments in Mexico"*, and the *"Methodology for the valuation of derivative instruments"*, which allow for knowing the interest rate risk the valuation of instruments that form part of its investment portfolios.

In addition, the estimates of the market CVaR are compared with the theoretical losses and gains (caused only by movements in market variables) with daily data and for the period of the model data window. That seeks to calibrate, if deemed necessary, the models used or modify the assumptions of the market VaR calculation. These retrospective tests ("backtesting") are carried out monthly, and they are presented to the Board of Directors of the Institution every quarter.

The estimated Conditional VaR for the held-to-maturity position is informative, since they are not considered in the consumptions of the overall limit, nor specific of the operating desk.

The overall limit control and specific market risk limits is carried out by using the Conditional VaR method.

ii) **Extreme scenarios and Market risk sensitivity tests.** The models and parameters are described in the "Methodology for determining extreme scenarios and credit risk sensitivity tests", which allow for analyzing the relevant risk factors of the portfolio of Banobras to identify extreme scenarios or stress and sensitivity tests that have a major impact on their valuation.

iii) **Methodology for estimating the replacement value of financial transactions.** The methodology is used for estimating the replacement value of the financial instruments of the portfolio in a future time, in the event that the counterparties should fail to meet their obligations with Banobras.

The Institution has the "Policies and procedures for market risk management", as well as the "Operating Framework for the Investment Portfolio" for the identification, measurement, and market risk monitoring.

The market CVaR calculation of operating desks, sensitivity tests, and extreme scenarios are carried out daily, as well as the control of limits, which are reported to the General Offices, the person responsible for Internal Auditing, and the persons responsible for the business units.

There is a system at the Bank that seeks to calculate the market VaR of operating desks (money market desks, foreign exchange (FX) desks, derivatives desk) at a consolidated level, sensitivity and stress tests, as well as the calculation and follow-up on the effectiveness of derivative instruments designated as hedges.

c) Liquidity risk

Liquidity gaps of Banobras are calculated periodically to monitor liquidity risk arising from the difference between asset and liability flows of the Institution.

On the other hand, Banobras is considered as the low risk issuer on the market, since it has the guarantee of the Federal Government on its liabilities. Toward that end, the possibility that the Institution may face liquidity problems is low. However, the Institution has a Contingency Financing Plan that determines the strategies, policies, and policies to follow in the event that unexpected liquidity requirements or problems for liquidating assets should arise.

Moreover, an indicator structure has been established to monitor and control liquidity risk exposure.

Methodologies, Policies, and Procedures and Systems or Applications

i) **Liquidity risk management.** Liquidity risk implies the loss of ability to meet present and future cash flow needs that affect the daily operation or financial conditions of the Institution. This potential loss is measured and controlled at Banobras through models and indicators contained in the *"Interest rate risk management methodology of the balance and liquidity risks"*, which include asset and liability management basis, maturity gas, accounting, flows and repricing, liquidity indicators, and the gap Break-even indicator.

The Break-even gap estimates the point in time at which the flows of assets and liabilities are equal, reflect the moment in time at which asset flows are sufficient to settle liability flows. This indicator can be calculated for any type of flow gap and it is intended to observe the behavior of flows and make business decisions based on this point.

The flow gap is determined monthly to identify the risks of concentration of flows of asset and liability money at distinct periods to which Banobras is exposed, as well as to determine capital requirements.

The projection of these flows is carried out based on the implied market rates, and the algebraic sum is realized between credit and borrowing positions to determine the liquidity gap and know the amount that should be refinanced or invested per period.

The following is considered to calculate this flow gap: the loan portfolio, money market positions, proprietary issues, interbank loans, and derivative financial instruments.

On the other hand, an indicator structure was established for monitoring and controlling liquidity risk exposure, and there are "contingency" and "follow-up" indicators. The contingency financing plan will be activated in the event that the levels established for contingency indicators fail to perform.

In addition, the calculation model is determined for the liquidity risk premium that reflects the additional cost that must be charged for granting financing to cover the liquidity risk caused by the difference between the financing term and the target funding term.

Policies and procedures for managing liquidity risk are set out in the document *"Policies and procedures for Liquidity Risk Management"*.

ii) Methodology for determining extreme scenarios and liquidity and liquidity risk sensitivity and economic value of capital. It is used to calculating stress scenarios of risk factors generated by liquidity and interest rate risk. The effect in dealing with a stress situation in financial income, the total cost of funding, interest rates, liquidity gaps, the economic value of capital, and the liquidity ratio of Banobras is intended to be analyzed through scenarios.

There is an application for calculating the liquidity gap of the Institution every month, by book, term, and by type of currency, in conformity with the methodology currently approved by the CAIR.

Moreover, the identification, measurement and monitoring of this type of risk, as well as the application of extreme scenarios and liquidity risk sensitivity tests are set out in the *"Policies and procedures for liquidity risk management"*.

d) Asset and Liability Management (ALM)

Asset and Liability Management (ALM) provides an overall vision of risks, by integrating and measuring them through the economic value of capital.

The ALM sets out the manner in which risk factors of the Balance Sheet can be stressed, as well as how scenarios can be analyzed with regard to the behavior of the composition of the portfolio, funding strategies, liquidity, and interest rate levels to evaluate the implications in creditworthiness and strength of the Economic value of the Capital of the Bank. In the international framework, the Basil Committee recommends simulating stress scenarios as a good practice, including extreme and systemic type scenarios to measure the effect thereof in the risk of the balance sheet.

Methodologies, Policies, and Procedures and Systems or Applications

i) Interest rate risk management methodology of the balance sheet and liquidity. The models are documented in the methodology that allow for measuring the potential loss in the economic value of capital through the VaR of economic value of capital, with a time horizon of one month, a window of 500 data, and a 99% confidence level, and the impact on its financial margin arising from changes in interest rates and the composition by portfolio rating. In addition, it allows for knowing the impact of credit and borrowing positions at different terms through different liquidity and market risk measurements, which must be analyzed jointly.

The ALM analysis through calculation motors that have been developed to be implemented allows for calculating the economic value of the capital of Banobras and their financial margin, and identifying the risk factors that are a factor thereon. The economic value is adjusted by credit risk, since it considers the expected loss of the portfolio in all its term, as well as the contribution of derivatives and trading securities.

In addition, it is a useful tool for measuring the impact of the operating strategy of the balance sheet to improve the use of capital, as well as contributing to maximizing the risk adjusted return.

The ALM analysis is carried out by monitoring the risk of all operations of the Balance Sheet of Banobras, including the loan portfolio, funding, and hedges. It allows for quantifying the payment behavior of borrowers (credit risk) through simulation techniques and tools, as well as the added value of business strategies (for example: changes in the funding structure and the hedging with derivatives strategy).

The results of the model are calibrated and reported to the CAIR and Board of Directors quarterly. The Institution has an application that allows for valuing credit and borrowing positions of the balance sheet, by respecting parameterization and assumptions defined for each position approved by the Risk Management Committee.

This application consists of modules, which homologate and integrate mark-to-market metrics, economic value of capital, VaR of the economic value of capital, DGAP of duration, sensitivity, and stress scenarios.

Policies for identifying, measuring, and monitoring this type of risk are documented in the *"Policies and procedures for liquidity risk management"*.

e) Operating risk

Operating risk management seeks to reduce the potential loss due to failures or deficiencies in internal controls, errors in processing and storing operations or in the transmission of information, as well as for adverse administrative and judicial resolutions, frauds or thefts. In addition to considering the operating risk corresponding to new products, start-up of activities, start-up of processes or systems prior to their launching or implementation.

There is an operating risk tolerance level for the analysis and follow-up on events of loss on operating risk. Toward that end, the amount is determined of the loss arising from individual operating risk events or the sum of losses caused by the repetition of the same event.

Operating risk events are recorded in the respective database and they are included in institutional statistics. The occurrence of events that exceed the operating risk tolerance level implies reporting to the Chief Executive Officer, the Assistant General Director of Risks Management (DGA) and the DGA in which the event of loss was reported, as well as the personnel indicated in the Policies and Procedures for Operating Risk management, as well as the Board of Directors, through an operating risk exposure report at their next meeting. The Risk Management Administrative Office asks the responsible areas for additional information on the mitigation actions that have been implemented and are in the process and, if applicable, it may suggest additional actions or mitigation plans.

In addition, there is a metric inside the desired risk profile for following-up on the amount accrued of losses in the year, due to operating risk events.

Methodologies, Policies, and Procedures and Systems or Applications

i) **Methodologies for Operating Risk Management.** These methodologies allow for estimating the impacts of operating contingencies, the amount of potential losses arising from unfavorable legal or administrative rulings handed down, levels of tolerance of the desired risk profile and operating risk tolerance, as well as the internal operating risk rating, and the classification of information security vulnerabilities.

A Business Impact Analysis (BIA) is performed on operating contingencies, which enables the Institution to determine the criticality thread of subprocesses to define if they should be considered in the Going Concern Plan of Banobras, as well as for estimating the qualitative and quantitative impacts of the operating contingencies associated therewith. Those subprocesses related to the Interbank Electronic Payment System (SPEI-Spanish acronym) of the Bank of Mexico must be included in this analysis. The criticality thread level is defined for each subprocess, whereas the relevance is defined based on the type of impact (financial, regulatory, social/reputational, legal), both of which are based on their own experience.

With regard to the legal risk, Banobras has legal matter collaboration portal, operated by the Associate Juridical Office, and it submits the information to the Operating Risks and Capital Requirements Management, which is required for generating and sending the *"Overall Court Proceedings Portfolio"* regulatory report to the National Banking and Securities Commission. The different legal matters, as well as their follow-up are stored in that database.

In addition, the risk area together with the supporting area in legal risk matters estimate the potential losses associated with possible unfavorable administrative and judicial resolutions handed down in connection with the operations carried out by Banobras.

Finally, an internal operating risk rating is defined that is a self-evaluation measure based on a combination of operating risk events that occurred and the best practices for the report thereof.

Relying on the Common Vulnerability Scoring System (CVSS) was proposed with regard to the quantification of technological vulnerabilities, which sets out metrics for the communication of characteristics, such as criticality, probability of occurrence, and impact of vulnerabilities that affect elements of the information technology security environment.

ii) Policies and procedures for operating risk management: They are approved by the CAIR and they establish the framework for managing this type of risks in Banobras, in addition to the following:

- Procedure for identifying and following-up on risks, as well as classifying them in accordance with their frequency and potential economic impact.

- Identification and following-up on key operating risk indicators (KRI), which are statistics and parameters that measure exposure and evolution of an operating risk identified, and having the capacity to alert in dealing with possible changes in exposure thereto. The materialization of operating risk events and consequently the possible associated risks is mitigated by monitoring every KRI.

- The Bank performs internal legal audits at least annually, through an area independent from the Juridical DGA to avoid a possible conflict of interest.

In addition, Banobras has the following elements for managing operating risks:

- Structure and information system for recording operating risk incidents, which considers the provisions of Exhibit 12-A of the General Provisions applicable to Credit Institutions.

- The system is designed for Risk Coordinators by Department or personnel of each Assistant General Office to record those events that imply any effect on operating risk to which the Institution is exposed, which have given rise to either a real or estimated loss, or no loss has been generated.

f) Unquantifiable risks

Unquantifiable risks are those arising from unforeseen events for which a statistical base cannot be drawn up that allows for measuring potential losses. These risks are the strategic risk, the business risk, and the reputational risk.

There are models for identifying and following up on these risks in order to manage them.

Methodologies, Policies, and Procedures and Systems or Applications

- **i) Methodologies for non-quantifiable risk management.** The elements considered for strategic and business risk management are documented in this methodology. It further incorporates a follow-up indicator for reputational risk.

- **ii) Policies and procedures for non-quantifiable risk management:** They are approved by the CAIR and they establish the framework for managing this type of risks in Banobras, in addition to the Procedure for identifying, recording, mitigating, and following up on non-quantifiable risks.

g) Capital requirements

Consistent with the provisions of the Basel Capital Accords and as part of the risk management process, the regulatory framework with regard to capitalization has been implemented at Banobras to promote the soundness and stability of the Institution. Toward that end, the capital requirement associated with credit, market, and operating risks is determined in conformity with the Provisions every month.

Banobras uses the Standard Method for the credit risk capital requirement, which is referred to in Section Two of Chapter III of Title One Bis of the Provisions. The Basic Indicator Method is used with regard to the capital requirement associated with Operating Risk exposure, also described in the Provisions.

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Policies and procedures for determining the capitalization requirements of Banobras: The policies and procedures are documented for determining the capitalization requirements of Banobras, as well as the process for compiling and sending the respective forms to Banco de Mexico.

For the calculation of the credit risk requirement, the Institution uses the ratings furnished by the following rating agencies: Standard & Poor's, Fitch Ratings, Moody's, HR Ratings de Mexico, Verum, A.M. Best Rating Services and DBRS. Those rating institutions are used for all credit operations, credit lines, Timely Payment of Guaranties, derivatives, and securities trading of the Institution, in accordance with the Standard Method. It is important to note that Banobras does not allocate public issue ratings to comparable assets.

Banobras uses offsetting mechanisms for derivatives trading whey they are carried out with the same counterparty, provided that those offsets are set forth in the framework agreement.

The results of the capital requirement are reported monthly to the CAIR and quarterly to the Board of Directors, through the Quarterly Report on risk exposure assumed by Banobras.

As part of the process for the determination of capitalization requirements, the Risk area uses a system from which RC forms are generated with their respective validation, which are submitted to the Banco de Mexico.

QUANTITATIVE INFORMATIVE[7]

a) Credit risk

The Amount Exposed of the portfolio presented in the following chart considers the Portfolio of States, Municipalities and Agencies, Public Trusts, and Decentralized Federal Government Agency, State-Owned Productive Companies, Projects with Own Source of Payment, Companies and Counterparty Risk.

Quarter	4th 2022	3rd 2022	2nd 2022	1st 2022	4th 2021
Amount exposed in nominal term1/	614,945.4	604,885.4	533,519.5	524,493.2	523,987.9
Amount exposed in capital requirement term1/	25,203.2	26,318.6	19,597.4	19,771.6	21,485.1
Overall Consumption Limit	68.9%4/ 5/	71.9%4/ 5/	65.5%2/ 3/	66.0%2/	71.8%2/

Amounts in millions of pesos.

1/ Does not include the exposure of Mexico City because it is the portfolio of the Federal Government for the fourth quarter of 2022 in nominal terms amounts to 38,110.5 million pesos and for the third quarter of 2022 in nominal terms amounts to 34,514.6 million pesos, as well as development banking. Includes counterparty risk and investment portfolio, which, in nominal terms as of the fourth quarter of 2022, amounts to an accumulated amount of 94,777.0 million pesos and 89,326.2 million pesos in the previous quarter.

Likewise, it is noted that the figures reported in nominal terms are indicative.

2/ On May 25, 2021, the Board of Directors (CD) approved the global credit risk exposure limit in terms of capital requirement amounting to 29,941 million pesos.

3/ The CAIR through agreement 045/2022 dated June 24, 2022, approved the update of the specific limits of exposure to credit risk.

4/ The CAIR through agreement 048/2022 dated June 29, 2022, approved the update of the specific limits of exposure to credit risk by line of Business, which are applicable once the Board of Directors has approved the overall limit.

5/ On September 12, 2022, the CD through agreement 082/2022, approved the global credit risk exposure limit in terms of capital requirement amounting to 36,604.7 million pesos.

The average exposure in nominal terms from the third quarter of 2022 to the fourth quarter of 2022 amounts to 646,228.0 million pesos considering the exposure of Mexico City. If the exposure of Mexico City is not considered, since it is an Excepted Portfolio, the average exposure in nominal terms from the third quarter of 2022 to the fourth quarter of 2022 amounts to 609,915.4 million pesos.

In the fourth quarter of 2022, there was a decrease in the consumption of the global limit in terms of capital requirement of 4.2% compared to the third quarter of 2022, reaching 68.9% (71.9% in the previous quarter), likewise, registered an increase in authorized exposure in nominal terms[8] of 10,060 million pesos compared to the previous quarter, the changes are mainly due to increases in the Counterparty and States and Municipalities Business lines, as well as the decrease in the line exposure of Commercial Credit Business, in addition to portfolio movements and exchange rate volatility.

Credit VaR

7 Except as indicated otherwise and in conformity with the provisions of the last paragraph of Article 57 of the General Provisions Applicable to Lending Institutions, all references in this section to basic capital or net capital corresponding to the amount at the closing of the fourth quarter of 2022 (December 2022).
8 The figures reported in nominal terms are indicative

In order to have a global perspective of the risk of the commercial credit portfolio, the Credit Value at Risk (VaR) is determined, which allows estimating the maximum potential loss of the portfolio that the Bank could face, due to possible deterioration of the credit quality of the portfolio, in an annual time interval, with a confidence level of 99%.

As of the 4th quarter of 2022, the credit VaR of the portfolio is $35,118.6 million pesos, which represents 44.24% of the net capital as of September 2022.

Expected Loss	4th quarter 22	3rd quarter 22	2nd quarter 22	1st quarter 22	4th quarter 21	μ*	σ*
Unexpected loss	18,043.1	14,879.4	12,006.6	11,018.3	13,750.5	13,939.6	2,739.9
Credit VaR	17,075.5	20,706.2	18,550.9	18,140.8	18,231.2	18,540.9	1,331.5
Net capital a)	35,118.6	35,585.6	30,557.5	29,159.2	31,981.7	32,480.5	2,809.8
Preventive reserves	79,390.6	85,311.7	85,331.5	80,939.5	76,684.0	81,531.5	3,780.3
Portfolio exposed to credit risk b)	15,900.0	14,028.6	12,520.5	11,403.4	14,228.6	13,616.2	1,721.7
Credit VaR/Net capital	506,097.8	489,562.5	447,458.0	446,997.5	449,854.4	467,994.1	27,878.0
Credit VaR/Portfolio exposed to risk	44.24%	41.71%	35.81%	36.03%	41.71%	39.90%	3.78%
VaR of Financial Instruments	6.94%	7.27%	6.83%	6.52%	7.11%	6.93%	0.28%
Exposure of Financial Instruments c)	43.8	46.1	43.2	63.1	88.6	57.0	19.5
VaR of Fin. Inst./Net capital	51,370.0	46,384.9	42,728.1	48,362.8	53,477.7	48,464.7	4,207.6
VaR of Fin. Inst./Exposure of Fin. Inst.	0.06%	0.05%	0.05%	0.08%	0.12%	0.07%	0.03%
Expected Loss	0.09%	0.10%	0.10%	0.13%	0.17%	0.12%	0.03%

* Corresponding metrics for the last 5 quarters. Figures in millions. a) Considers the net capital of the previous quarter as provided by the CNBV, updated to the information validated as of the date of this report. b) "Portfolio exposed to risk" or "portfolio exposed to credit risk" is defined as the portfolio of GEM, Private, financial intermediaries and the portfolio of the Parastatal Federal Public Administration and Public Trusts, the above without including FONADIN, excepted portfolio or Loans to ex-employees.

During the last five quarters, the average annual credit VaR was 32,480.5 and has a standard deviation of 2,809.8, while the average for the VaR of financial instruments is 57.0 with a standard deviation of 19.5, the VaR of financial instruments was 43. and represents 0.06% of the net capital.

Regarding the distribution of the portfolio exposed to credit risk without Zero Coupon Bonds (BCC) for 506,097.8, by geographical region, as of December 31, 2022, the Central region represents 44.38%, the South region 26.87% and the North region 28.75%. However, the South zone presents the least diversification with an index of 9.3 vs. 19.8 from the Central region. Likewise, during the fourth quarter of 2022, Banobras' credit VaR ratio with respect to the portfolio was 6.94%.

VaR and loan portfolio by geographic region *

Balance** of portfolio exposed to credit risk			Marginal VaR at 99%
Región	dic-22	%	dic-22
North	145,507.0	28.75%	9,022.8
Central	224,603.8	44.38%	20,374.6
South	135,987.0	26.87%	11,368.8
Total	506,097.8	100.00%	35,118.6

*/The sums and some figures may vary due to rounding effects. Amounts in millions of pesos.

At December 31, 2022, the net capital of the Institution covers simulated losses including extreme losses, in accordance with the sensitivity tests of the credit VaR performed under distinct extreme scenarios.

Loan portfolio diversification

The five main borrowers maintain a portfolio of 129,857.8 (25.1% of the portfolio subject to credit risk) and represents 1.7 times the basic capital as of September.

To date, 43 borrowers out of a total of 528 concentrate 80.2% of the balance of the commercial credit portfolio, discounting the zero coupon bonds (for 11,026.7), this is equivalent to 5.2 times the net capital of Banobras as of September.

No borrower exceeds the concentration limits of the CNBV. Moreover, the three main borrowers subject to concentration limits do not exceed 100% of the basic capital of the Institution, and none of the borrower's subject to the 100% limit of the basic capital exceeds the threshold.

Portfolio Credit Risk

Banobras' credit portfolio as of December 30, 2022, amounted to 613,117.9, 43.0% corresponded to loans from state governments, municipalities and their agencies; 34.7% to private loans and 3.7% to financial entities. The total portfolio presents an increase of 9.4% compared to what was reported in December 2021 (560,576.3).

Main characteristics of the credit portfolio by risk group

Concept	Balance Dec-22	Balance Dec-22	VaR Dec-22
Governments of States and Municipalities	**263,377.1**	**1,536.7**	**14,597.8**
Stage 1	263,377.1	1,536.7	
Stage 2	0.0	0.0	
Stage 3	0.0	0.0	
Emproblemada	0.0	0.0	
Private	**212,626.6**	**14,221.0**	**24,701.8**
Stage 1	197,338.7	2,704.1	
Stage 2	1,309.1	26.2	
Stage 3	13,978.9	11,490.7	
Emproblemada	13,978.9	11,490.7	
Financial intermediaries	**22,485.5**	**49.0**	**1,798.7**
Stage 1	22,485.5	49.0	
Stage 2	0.0	0.0	
Stage 3	0.0	0.0	
troubled	0.0	0.0	
APFPYFP	**18,635.3**	**93.2**	**1,142.5**
Total concentrate subject to risk	***517,124.5***	***15,900.0***	**35,118.6**
GF Portfolio ** excepted	**60,853.4**	**0.0**	
Fonadin	**35,000.0**	**12.2**	
Former employees	**140.0**	**45.1**	
Stage 1	65.0	0.2	
Stage 2	7.7	1.0	
Stage 3	67.3	44.0	
Troubled	59.9	43.5	
Total	***613,117.9***	***15,957.3***	

During the fourth quarter of 2022, the monthly average of the portfolio was 605,463.7, while the average reserves was 14,685.0.

	Average Balance December 2022	Average Reserves December 2022
States and Municipalities or with their guarantee	244,704.3	1,429.2
Own payment source	203,764.3	11,054.3
Loans to the Federal Government or with its guarantee	58,054.0	0.0
Contingent credits: Others	51,376.6	103.2

	Average Balance December 2022	Average Reserves December 2022
Second-tier loans: Multiple Banking	15,937.8	44.3
Second Floor Credits: Other	6,168.2	9.3
Decentralized or Deconcentrated Organizations	23,054.7	101.3
Agent bank credits	364.4	0.0
Commercial Credits: Medium companies	1,899.3	1,899.3
Housing loans	130.3	34.9
consumer credits	9.9	9.3
Total:	605,463.7	14,685.0
Amounts in millions of pesos.		

In accordance with the distribution of the remaining term of the portfolio, 53.4% matures in a term between 10 and 20 years, are shown below:

Distribution of balances by remaining term of the portfolio at December 2022

	Remaining term in months							Total
	[0 - 3]	(3 - 6]	(6 - 12]	(12 - 60]	(60 - 120]	(120 - 240]	> 240	
States and Municipalities or with their guarantee	3.5	2.6	18.6	4,872.3	21,574.9	171,113.2	47,659.8	**245,244.9**
Own payment source	1,847.8	4,012.9	609.8	10,904.8	62,011.1	115,686.0	10,911.8	**205,984.3**
Loans to the Federal Government or with its guarantee	0.0	0.0	145.5	4,270.5	33,742.5	15,121.8	7,203.1	**60,483.5**
Contingent credits: Others	51,344.5	0.0	0.0	0.0	0.0	0.0	0.0	**51,344.5**
Second-tier loans: Multiple Banking	0.0	0.0	0.0	179.6	663.0	15,096.4	0.0	**15,939.0**
Second Floor Credits: Other	0.0	0.0	0.0	1,248.4	59.1	5,239.0	0.0	**6,546.4**
Decentralized or Deconcentrated Organizations	5,202.9	0.0	0.0	13,630.4	1,770.2	4,565.7	0.0	**25,169.2**
Agent bank credits	0.0	0.0	0.0	0.1	62.6	307.2	0.0	**369.9**
Commercial Credits: Medium companies	1,896.1	0.0	0.0	0.0	0.0	0.0	0.0	**1,896.1**
Consumer credit	30.3	0.0	2.6	12.8	16.3	68.1	0.0	**130.1**
Housing credit	9.0	0.0	0.0	0.9	0.0	0.0	0.0	**9.9**
Totales:	**60,334.0**	**4,015.6**	**776.6**	**35,119.9**	**119,899.6**	**327,197.5**	**65,774.7**	**613,117.9**
Percentage of the total	**9.84%**	**0.65%**	**0.13%**	**5.73%**	**19.56%**	**53.37%**	**10.73%**	**100.00%**

Amounts in millions of Mexican pesos

The distribution of reserves by risk level is shown in the following chart:

Comparison of the distribution of reserves* by risk level

Risk level	Preventive	
	dec-22	%
A-1	2,484.2	15.57%
A-2	1,504.9	9.43%
B-1	20.9	0.13%
B-2	294.0	1.84%
B-3	106.9	0.67%
C-1	1.8	0.01%
C-2	10.5	0.07%
D	704.2	4.41%
E	10,829.9	67.87%
Total	**15,957.3**	**100.00%**

Amounts in millions of pesos.
*/ Does not include induced credit or guaranteed refinancing.

Commercial portfolio in Stage 3 amounts to 13,978.9 and represents 2.3% of the Bank's total portfolio, as well as 2.7% of the portfolio exposed to risk. During the fourth quarter of 2022, the commercial Stage 3 portfolio increased 738.4 over last year. Taking into account the portfolio in

Stage 3 of former employees, at the end of the fourth quarter of 2022 the portfolio in Stage 3 amounts to 14,046.2. Regarding the time that the credits remain in the Stage 3 portfolio.

Troubled portfolio is identified as those commercial, consumer and housing loans with risk "D" and "E". At the end of December 2022 it amounts to 14,038.81.

It can be seen that the distribution of the Stage 3 portfolio by geographic region is mainly concentrated in the Central region with a ratio of 61.4% to the Stage 3 portfolio. It is also observed that 100.0% of the reserves in Stage 3 of the South region are in a troubled state.

Loan portfolio by geographic region: by stages and troubled*/ as of December 2022

Region		Balance	Reserves	% reserves
Nort	Stage 1	145,812.2	1,288.9	0.88%
	Stage 2	1,309.1	26.2	2.00%
	Stage 3	157.4	156.9	99.68%
	troubled	157.0	156.9	99.94%
	Total	**147,278.7**	**1,472.1**	**0.99%**
Central	Stage 1	315,260.3	1,834.0	0.58%
	Stage 2	7.7	1.0	12.59%
	Stage 3	8,620.3	6,961.9	80.76%
	troubled	8,613.9	6,961.6	80.82%
	Total	**323,888.3**	**8,796.9**	**2.64%**
South	Stage 1	136,682.4	1,272.5	0.93%
	Stage 2	-	-	0.00%
	Stage 3	5,268.5	4,415.8	83.82%
	troubled	5,268.0	4,415.7	83.82%
	Total	**141,950.9**	**5,688.3**	**3.85%**
Total		**613,117.9**	**15,957.3**	**2.5%**

Amounts in millions of pesos. *Sums and some figures may vary due to rounding effects.

The states with the most significant amounts of troubled and overdue portfolio for the fourth quarter are presented.

Troubled portfolio by state without former employees

Federal entity	Dec-22 Balance	Stage 3	Reserves
Mexico City	6,688.2	6,688.2	5,889.0
Veracruz	3,887.5	3,887.5	3,194.0
Oaxaca	1,661.5	1,661.5	823.4
Others	1,741.8	1,741.8	1,584.3
Total	**13,978.9**	13,978.9	**11,490.7**

Amounts in millions of pesos

As of December 2022, the total number of entities with a troubled portfolio is 7 (without considering the portfolio of former employees), maintaining the previous year.

Overdue portfolio by state without former employees

Federal entity	Dec-22 Balance	Reserves
Mexico City	6,688.2	5,889.0
Veracruz	3,887.5	3,194.0
Tabasco	1,661.5	823.4
Others	1,741.8	1,584.3
Total	**13,978.9**	**11,490.7**

Amounts in millions of pesos

During the fourth quarter of 2022, a portfolio borrower entered Stage 3.

The changes in balances and reserves of troubled loans presented in their currency of origin, allow isolating the effect of the exchange rate of the variation in the level of risk of this portfolio.

Portafolio	December 2022		
	opening balance	Balance	Reserve
Mexican Pesos	9,282.5	7,581.5	7,697.0
U. S. Dollar	233.3	194.2	270.3

Figures in millions of units of the original currency.
*The figures for December 2019 were reprocessed in Feb-2020, so they may not coincide with previous reports.

Main own-account financing

As of December 31, 2022, the sum of the three main borrowers subject to 100% of the basic capital amounts to 49,706.1 (including financial instruments), which represents 65.0% of the basic capital.

Likewise, the Institution has granted 23 financings for 782,336.1 (including financial instruments) that exceed 10% of the basic capital and that represent 10.2 times the basic capital of the institution.

Main financing subject to common risk diversification limits

Under no circumstances has any borrower subject to the 100% concentration limit of the basic capital exceeded that limit.

As of the fourth quarter of 2022, Banobras had accredited 19 economic groups in which there are 39 companies that represented common risk due to equity links, which in aggregate constituted a concentration equivalent to 1.2 of the basic capital.

Expected Credit Loss (ECL) of Financial Instruments (FI) and accounts receivable (A/R)

Banobras has the “Credit impairment of accounts receivable and financial instruments methodology” approved by the Comprehensive Risk Management Committee (CAIR-as per its acronym in Spanish), which sets forth the procedures for the calculation of the ECL of Accounts Receivable, in conformity with how it is defined in Mexican Financial Reporting Standard (MX FRS) C-16 Impairment of financial instruments receivable, IFCPI, and IFCV recorded.

The allowance for the ECL of Financial Instruments (FI) by type of portfolio is presented in the next table: Financial Instruments for Collecting Principal and Interest (IFCPI as per its acronym in Spanish” where IP corresponds to the Investment Portfolio of Banobras and the allowance for ECLs of accounts receivable.

ECL IF y ECL AR[1]

Portfolio Type	dec-22
IFCPI[2]	310
IFCV e IFN[3]	17.7
accounts receivable	35.9
Total	

1 /Amounts stated in millions of pesos. 2 / The fair value is reported for the IFCV, and for its amortized cost for the IFCPIs. 3 /The ECL is only applicable to IFCV and IFCPI is not applicable to Negotiable financial instruments (NFIs).

At the end of Dec-2022, the ECL of financial instruments stands at 327.7[9]

[9] In this period, a change of business portfolio was made for financial instruments that integrated PI IFCV to PI IFCPI.

Value of the position of Financial Instruments and ECL [1]

Portafolio	position value [2]			ECL3			ECL / Valor		
	Dec 30, 22	Nov 30, 22	Oct 31, 22	Dec 30, 22	Nov 30, 22	Oct 31, 22	Dec 30, 22	Nov 30, 22	Oct-31, 22
Money table	374,567.5	374,218.0	370,193.2	14.7	14.3	14.3	0.004%	0.004%	0.004%
IFCV	372,127.8	371,664.1	367,243.7	14.7	14.3	14.3	0.004%	0.004%	0.004%
IFN	2,439.7	2,553.9	2,949.5	*0.0*	*0.0*	*0.0*	0.000%	0.000%	0.000%
Treasury	28,252.2	27,800.5	26,272.5	313.0	314.8	314.4	1.108%	1.132%	1.197%
IFCV	7,376.1	7,412.3	7,404.6	0.3	0.3	0.3	0.004%	0.004%	0.004%
PI IFCPI	5,898.6	5,706.7	5,885.4	310.0	312.2	312.0	5.256%	5.471%	5.302%
PI IFCPI 1[3]	14,977.6	14,681.5	12,982.5	2.7	2.3	2.1	0.018%	0.016%	0.016%
Total	**402,819.7**	**402,018.5**	**396,465.6**	**327.7**	**329.2**	**328.7**	**0.081%**	**0.082%**	**0.083%**

1 /Amounts stated in millions of pesos. 2 / The fair value is reported for the IFCV, and for its amortized cost for the IFCPIs. 3 / The ECL is only applicable to IFCV and IFCPI is not applicable to Negotiable financial instruments (NFIs).3/ At the request of the Financial Operation, a change of business portfolio is made for the financial instruments comprised of PI IFCV to PI IFCPI 1.

The foregoing information shows that the amount of the ECL has a decrease of 327.7 as of December month-end, which represents 0.081% with respect to the total value of the position.

The amounts of Accounts Receivable (A/R) grouped by type of account are presented in the following table:

Board. ECL of accounts receivable [1/]

Account type	ECL Dec 31, 2022	Valued balance December 31, 2022	ECL / valued balance
Debtors for settlement of	0.3	118.2	0.23%
Debtors for collaterals	0.0	160.0	0.00%
collection rights	0.0	0.0	NA
Miscellaneous Debtors - Not including personal loans	30.1	3,912.3	0.77%
personal loans	0.2	2,313.4	0.01%
Taxes to Recover	0.0	188.5	0.00%
Conditional Accounts	0.0	0.0	NA
Other Accounts Receivable	5.3	5.3	100.00%
Total	**35.9**	**6,697.7**	**0.54%**

1 / Figures in millions of pesos.

The Sundry Debtors account represents 84.4% of the total ECL A/R.

The following table shows the concentration by currency of the AR balances, where it can be seen that almost 100% of the amount of the debt are pesos, therefore there is no relevant exchange risk for these positions.

Board. ECL of account receivable by currency

Type of currency	Dec-22
Peso	28.7
Dólar	7.2
other currencies	0.1
Total	**35.9**

Amounts in millions of pesos.

Investments in securities

Investments in securities other than government securities that implied a credit risk, which represented more than 5% of the net capital of Banobras as of December 2022-month end, are indicated below:

Issuer	Nominal Value	% Regarding Net Capital
CFE	5,630	7.17%
BANCOMER	5,125	6.53%

The Net Capital considered is 78,528 million pesos.

The instruments in position have not presented a deterioration in the credit rating.

b) Market risk

Market value at risk (VaR) at Banobras is calculated by applying the Conditional VaR methodology (CVaR), with a time horizon of one business day, a window of 500 data and a 97% confidence level.

The calculations of CVaR are obtained for each one of the operating desks (Money Market, Currencies, and Derivative Desks), which consolidate the position of Banobras.

The CVaR of Banobras by operating desk, quarter closing, and average of the period, as well as the percentage that represents Net Capital is presented in the following chart:

Portafolio	4th Quarter 2022					3rd Quarter 2022				
	Dec/22	% CN	Average	% CN	σ	Sep/22	% CN	Average	% CN	σ
Banobras	276.45	0.35%	287.70	0.35%	8.63	304.11	0.35%	308.97	0.36%	3.37
Money Market	165.66	0.21%	161.39	0.20%	5.88	157.00	0.18%	134.18	0.16%	6.63
Exchange Desk	52.85	0.07%	55.85	0.07%	6.38	69.42	0.08%	67.36	0.08%	3.21
Derivatives Trading	24.01	0.03%	24.89	0.03%	3.54	25.64	0.03%	19.93	0.02%	2.33
Structural Derivatives Trading	158.82	0.20%	167.65	0.21%	4.87	174.97	0.20%	180.45	0.21%	2.23
Derivatives Trading Rec.	0.00	0.00%	0.00	0.00%	0.00	0.00	0.00%	0.00	0.00%	0.00

Derivative Financial Instruments

Prior to recording any derivative hedging contract, the Associate General Directorate of Risk Management evaluates the effectiveness of the derivatives to hedge the risk of underlying positions. Prior to entering into any derivatives trading contract, the market risk is estimated for overseeing the corresponding consumption limit and further validate the counterparty risk of the operation.

The follow-up on hedge effectiveness is reported monthly to the Associate General Directorate of Finance and quarterly to the Board of Directors and Comprehensive Risk Management Committee, by carrying out, the corresponding efficiency analysis toward that end, where the hedge is considered acceptable when the efficiency ratio is at a previously defined interval (between 0.80 and 1.25).

The calculation of CVaR is performed for trading derivatives, which is reported and monitored. The valuation techniques set out for current instruments correspond to generally accepted methods, which are approved by the CAIR.

Credit Risk of financial instruments, including derivatives.

At the end of the fourth quarter of 2022, there was an increase in the amount exposed with financial intermediaries and with the investment portfolio in nominal terms[10] for 5,450.8 million pesos compared to the third quarter of 2022. The foregoing is mainly explained by the increase in the Counterpart Business line.

[10] The figures reported in nominal terms are indicative.

Exposure from Loans to Financial Intermediaries and Investment Portfolio	Exposure in nominal term		
	Exposure at December-2022 closing (A)	Exposure at September-2022 closing (B)	Change with regard to prior quarter [(A)/(B)%]
Loans to Financial Intermediaries			
Counterparty	29,515.0	26,619.5	+10.9%
Bank funding	35,435.2	35,390.4	+0.1%
Brokerage Firms (Derivatives)	10.3	19.8	-47.8%
Other financial intermediaries no national banking	8,500.0	8,500.0	-
Development Bank	1.2	1.3	-10.6%
Subtotal Loans to Intermediaries Financial	**73,460.5**	**70,529.6**	**+4.2%**
Investment Portfolio (PI)	21,316.5	18,796.6	+13.4%
PI subtotal	**21,316.5**	**18,796.6**	**+13.4%**
Total	**94,777.0**	**89,326.2**	**+6.1%**

Amounts in millions of Mexican pesos
1/ Although the exposure with the Development Bank is reported, it does not count for the calculation of the exposure.

By the end of December 2022, the CVA calculation shows a total credit risk exposure of 529.77 million pesos, which comes mainly from financial counterparties.

CVA (pesos)	December 2022				September 2022			
	Derivatives	Mdo Din	PIDV	PICV	Derivatives	Mdo Din	PIDV	PICV
Financial Counterparts	392.63	0.18	0.34	38.43	539.02	0.83	63.40	0.27
Non-financial counterparties	21.09	1.10	75.71	0.28	3.13	0.18	0.36	57.09

The update calculation according to both national (N) and international (I) qualification matrices.
Amounts in millions of pesos

The estimated future positive exposure at one year for the position of derivative instruments created beginning with those of the scenarios used for the determination of the CVA by counter party present the following levels:

Counterpart_	Future exhibition
Counterpart_8	8,277.69
Counterpart_2	1,245.33
Counterpart_27	531.9
Counterpart_40	444.5
Counterpart_17	390.06
Counterpart_41	319.63
Counterpart_15	222.08
Counterpart_30	147.99
Counterpart_42	109.67
Counterpart_34	92.43
Counterpart_20	88.65
Counterpart_43	88.65
Counterpart_31	82.25
Counterpart_36	75.49
Counterpart_14	64.19
Counterpart_29	47.41
Counterpart_38	30.65
Counterpart_37	27.39

Counterpart_	Future exhibition
Counterpart_32	24.35
Counterpart_39	23.42
Counterpart_19	14.68
Counterpart_21	14.48
Counterpart_16	12.92
Counterpart_28	11.74
Counterpart_18	5.71
Counterpart_5	5.49
Counterpart_11	3.79
Counterpart_22	3.3
Counterpart_33	3.09
Counterpart_35	3.01
Counterpart_7	2.45
Counterpart_3	2.25
Counterpart_9	1.47
Counterpart_26	1.42
Counterpart_6	0.83
Counterpart_25	0.79
Counterpart_23	0.68
Counterpart_10	0.42
Counterpart_1	-
Counterpart_4	-
Counterpart_12	-
Counterpart_13	-
Counterpart_24	-

Amounts in millions Mexican pesos

As of December closing 31, 2022, the guarantees received for cash derivative financial instruments presented a 26.67% decrease with regard to the prior quarter.

As of the closing of the fourth quarter, in conformity with the contractual characteristics set forth with the counterparties with which Banobras maintains open operations, it is estimated that in the event that there should be a one notch decrease in the credit rating of the Institution, additional guarantees would not be furnished in addition to those already furnished.

The creditworthiness evaluation of counterparties, prior to carrying out the operations, as well as the characteristics of debt securities that operating desks can acquire is considered in the Framework of the Operation of the Desks of Banobras, as well as in the Framework of Operation of the Investment Portfolio.

As of the December 2022 closing, the operating Framework conditions are met for fixed rate and variable rate positions, as well as the position limits established, except for 0.34% of the total amount of the Investment in securities, which received a decrease in the rating below what was forecasted by the Operating Framework.

Derivative collateral management

Banobras currently has current derivatives trading portfolios with 60 counterparties, of which 18 financial counterparties have a contract that allows for trading collateral.

c) Liquidity risk

Liquidity risk management allows for identifying funding concentration risks to which Banobras is exposed. Funding operations at periods exceeding 30 days reflect a -7.45% monthly average variation during the fourth quarter of 2022, and present a 1.26% monthly average during the last 12 months.

The potential loss on early liquidation represents 0.044% on the average of the position of money market assets during the fourth quarter of 2022.

The flow projection of risk positions is carried out based on the implied market rates, and the algebraic sum is carried out between lending and borrowing positions to know the liquidity shortage or surplus That projection is carried out on loan portfolio positions, treasury positions, interbank loans, and derivative financial instruments.

d) Asset and Liability Management (ALM)

The economic value of capital was placed in the amount of $133.818 billion as of December 2022 closing. Stockholders' equity was placed in the amount of $83,178 The main cause of this increase was the contributions for future capital increases made in the amount of $1,551 made in December 2022.

Based on the Interest rate risk management methodology of the balance and liquidity risk, the economic value of capital divided by capital was placed at 160.9% in the fourth quarter of 2022. The foregoing is due to stockholders' equity, which grew at a value higher than economic value.

The Economic Value of Capital considers an adjustment on credit risk due to the expected loss of the economic value of the portfolio, derivatives, and trading securities. All credits are considered to reach maturity in accordance with contractual flows[11].

The expected loss represented 10.42% with respect to the economic value of capital this quarter. In addition, the expected loss of the economic value of the portfolio with respect to its economic value, that is, PEC/VEC represents 2.29%. That expected loss considers the estimate of credit risk in each one of the flows receivable from the portfolio at present value.

As of the closing of the fourth quarter, the duration of assets was placed at 401 days and liabilities at 372 days, which results in a DGAP of 0.19 years upon being weighted by economic value. This increase is explained primarily by a major increase in the duration of assets (28 days) with regard to the increase in the duration observed in the liabilities (18 days), which impacted the total duration of the balance sheet. The positive sign of the DGAP indicates that the Economic Value of Capital of Banobras is sensitive to increases in interest rates.

Descriptive statistics of the main credit and market risk exposure metrics are presented below:

Concept	December, 2022
PE/VE (Total)	10.42%
PE/VE (Portfolio)	2.29%
DGAP (Years)	0.19%

VE: Economic Value
PE: Expected Loss of the economic value of capital
DGAP: Duration of the Balance Sheet

Note: The loan portfolio, as well as the funding and risk mitigation structure through OTC derivatives, are the elements that have the highest impact on the financial margin and risk of the Balance Sheet of Banobras. OTC derivatives are specifically highlighted by the Extinguishing Cross Currency Swap that has an associated contingency due to its extinction clause, which is currently recognized at an accounting level,

[11] Due to the nature of the operations of Banobras, there are no term deposits without maturity; therefore, liquidity risk assumptions are not established.

and it is valued through a methodology approved by the CAIR.

e) Operating risk

During the fourth quarter of the year, 9 operational risk events were registered, two of which generated an economic impact for the institution.

Regarding the estimate of the impact that the materialization of the identified operational risks would generate, it would yield an expected loss of 0.7 million pesos, despite the fact that the capital requirement for operational risk is as follows:

Concept	Dec-22
Capital requirement for operational risk	2,149

* Amounts in millions of pesos

f) Capital requirements

The amount of exposures corresponds to the amount presented in the Credit Risk section, since Banobras calculates the credit risk capital requirement under the Standard Method. For the calculation of the capital requirement, admissible financial collateral used amounts to:

Item	Dec-22
Zero Coupon Bonds	11,026.7

Amounts in millions of Mexican pesos

Positive fair value is presented in the following table, as well as netting profit, current and potential future exposure by type of counterparty, in accordance with the standard method for the capital requirement.

Item	Dec-22		
	Financial	Non-financial	Total
Positive fair value	24,032.6	102.5	24,135.1
Netting Profit	12,063.4	50.4	12,113.7
Collateral or Security Interests Maintained (Cash/Securities)	4,637.7	0.0	4,637.7
Current Exposure	11,969.2	52.2	12,021.3
Future Potential Exposure	165.7	4.3	170.0

Amounts in millions of Mexican pesos

Information for positions in shares

The reason for the position in shares of Banobras is as permanent investments on which it does not expect unrealized gains. This position is not listed publicly, and no amount thereof is recognized in the Basic Capital.

Item	dec-22	
	Balance	Req. de capital
Equity investments (weighted at 100 percent)	-	-
Shares in complementary or auxiliary service companies in their management as referred to in Article 88 of the Credit Institutions Act (L.I.C.-Spanish acronym).	0.300	0.024
Equity investments in companies of Article 75 of the L.I.C. classified:	-	-
Group X (weighted at 1,250%)	-	-
Of subsections I and II, unlisted, as well as those listed and unlisted in subsection III, whose holdings neither give rise to debt capitalizations nor settlements of debts	-	-
Companies designated as "risk capital"[12]	35.705	10.794

Information related to securitization exposure

[12] The investments made by Development Banking in companies designated as "risk capital", in accordance with their internal regulations, consider the following treatment: 50% of the value of the investment in the basic capital is decreased and a 22.23% capital requirement is applied to the other 50% of the value of the investment for general market risk and 8% for a specific risk, in accordance with what is set out in the Provisions.

a) Qualitative information:

1. The type of risk assumed by the Institution consists of high credit quality paper, which must comply with the Operating Framework in effect (investment regime) and a minimum profitability requirement. As part of the follow-up on their positions, Banobras monitors a series of market metrics, liquidity, and counterparty every day, in order to reduce the risk assumed by the Institution, by minimizing exposure to possible nonperformance's by the issuer.

a. The possible loss due to early liquidation of those positions is monitored daily in the liquidity risk associated with securities in position.

b. The processes implemented at the institution to oversee the changes in credit and market risks of exposure in securities related to a securitization is comprised of various risk metrics that include daily monitoring and periodic disclosure. The CVaR as well as stress scenarios and sensitivity are calculated in market terms. There are counterparty limits and specific limits with regard to credit risk, depending on the line of business, which are monitored and reported daily, monthly, and quarterly.

2. Banobras carries out investor activities in the purchase of paper related to some securitizations, in conformity with the operating framework approved by the CAIR, and with the considerations issued by the Finance and Asset and Liability Management Committee (COFIGAP).

3. Banobras acquired securities related to securitizations as part of its investment strategy in 2022.

4. The rating agencies used for assigning the weighting factor for the determination of the capital requirement for credit risk in securitization positions are: Standard & Poor's, Fitch Ratings, Moody's, HR Ratings de Mexico, Verum, A.M. Best Rating Services and DBRS.

5. Banobras follows the practice of employing hedging strategies through derivative financial instruments.

6. The Bank has carried neither out its own securitizations nor through trusts.

7. The Institution does not participate as a sponsor of securitizations.

8. The Bank carries out journal entries in accordance with the currently enacted standards.

b) Quantitative information:

1. Banobras does not have own securitized products.

2. The aggregate amount of:

i.The securitization positions acquired itemized by risk weighted bands.

Band	Type of Value	Amount	Weighting Factor By market risk (%)
9	90	331.9	7.03
10	90	283.0	9.25
12	90	1,971.9	13.42
11	91	1,646.5	10.63
12	91	2,048.5	13.42
11	95	2,469.3	13.92
12	95	1,833.7	13.42
8	D2	94.0	3.28
9	D2	321.8	4.18

12	D2	921.9	9.59
	Total	**11,922.4**	

3. The aggregate amount of:

   i)The capital requirements corresponding to securitized exposures itemized by risk of nonperformance:

Type of value	Amount (Millions of Mexican pesos) [a]	Weighting factor (%) [b]	Capital req. (Millions of Mexican pesos) [c] = [a] * [b]/100 * 8%
90	2,586.8	45	93.1
91	3,694.9	45	133.0
95	4,303.0	45	154.9
D2	1,337.6	140	149.8
Total	11,922.4		530.9

   ii) No securitized exposure is reduced from fundamental capital.

4. There are no charges to capital with regard to securitizations subject to early redemption treatment.

5. Banobras does not have exposures in re-securitizations.

CREDIT MANAGEMENT POLICIES

Granting (credits):

- The Institution grants credits to the Federal Government, Mexico City, state and municipal governments, their respective agencies, state and or municipality-owned entities, as well as public entities that may contract financing in terms of the applicable legislation and standards, financial brokers, private equity companies, and trusts created, provided that such financing is channeled toward developing activities directly or indirectly related to infrastructure and public services, in conformity with Articles 3, 6, 7, and 31 of the Internal Regulations of the Institution.

Evaluation:

- All credit or financing applications, before being sent to the granting stage, are analyzed by the Business areas in order for those applications to have the elements for drawing up the Term Sheet, in accordance with the guidelines set forth in the Credit Manual.

- The elements that must be taken into account to perform the credit analysis include the following:

  - Credit operations must not exceed the indebtedness limits determined by the Risk area, in conformity with the methodology authorized by the Comprehensive Risk Management Committee (CAIR) or the metric that substitutes it.

  - The interpretation of the results obtained from the inquiry made with the Credit-Reporting Agency (Credit Bureau) on the credit history of the applicant and, if applicable, guarantees by endorsement, guarantors, sureties or joint and several obligors, secondary obligors, trustors, individual stockholders who hold 10% or more of the shares or that represent at least 75% of the capital stock of the company.

  - Under no circumstances must credits be segmented to be authorized by one or more of the levels of authority.

  - When credit or financing is evaluated through the Environmental and Social Risks Management System of the Institution, it must take into account the results and recommendations obtained from the environmental and social risks evaluation associated with credit and financing.

Based on the Credit Analysis and Term Sheet drawn up by the Business areas, as well as the opinions of the Risk area and Juridical area, the Credit Management perform a Comprehensive Credit Evaluation, which sets out whether or not the operation is viable and the degree of risk thereof. They further verify that prudential aspects are covered with regard to credit and that each and every one of the requirements are met, as set forth in the Credit Manual.

Authorization:

Credit applications are authorized by the levels of authorities and officers duly authorized, based on the Term Sheet and their exhibits, as well as the Comprehensive Credit Evaluation. It is important to note that no credit is authorized if it does not have the minimum information and documentation set out in the Credit Manual and applicable provisions, by taking into account, among other things, the following:

- Primary source of recovery of the credit or financing.
- The creditworthiness of the credit of financing applicant.
- The proposed guarantee scheme that allows for recovering the proceeds granted or any mechanism that mitigates the risk associated with the financing.
- Risk exposure on the total credit or financing operations payable by the possible debtor, as well as his payment experience.
- The possible existence of a common risk, in conformity with the provisions set forth in the policies and procedures for risk management of the Banobras portfolio, set forth in the Comprehensive Risk Management Manual.
- The results of the sensitivity exercises on the projected flows of the applicant in dealing with variations in various risk factors, the credits or financing that they represent individually or under the common risk concept, the lower of an amount of more than ten percent of the basic capital of Banobras, or equal to or higher than thirty million UDIS in the equivalent in Mexican pesos, and whose term exceeds one year.
- Proof that it supports the Business Model to which it belongs.
- In credits or financing whose source of payment and/or guarantee are comprised of proceeds assigned irrevocably in a trust, present the percentage of the source of revenues identified and/or the amount of proceeds to be placed in a trust, independently from the amount and/or percentage of proceeds allocated for the payment of prior commitments.
- The term established for the credits or financing with a proprietary source of payment must be congruent with the maturity of the respective project, concession title, service contract, decree or any other juridical instrument related to the project.
- The conclusions and opinion of the Comprehensive Credit Evaluation with regard to the viability of the operation, in accordance with the degree of risk thereof.

Control:

- Once credits are authorized by the by the levels of authorities and officers duly authorized, they are formalized by an agreement drawn up by the Juridical area.

  The Business area sends the legal instruments supporting authorized the operations duly signed to be sent to the vault and a copy thereof to the Credit Control and Regulatory Desk, which verifies that the credits to be granted were documented in the terms and condition that would have been approved for that purpose and, if applicable, it releases the proceeds applied for by the borrower, and the corresponding disbursements are subsequently authorized.

- Once the proceeds are released, the portfolio management area, with the approval of the disbursements, authorizes those disbursements in accordance with what was agreed upon contractually and records the credit and its disbursements in the Comprehensive Portfolio System, whereby the journal entry is made. Control of the portfolio is subsequently kept through monthly credit granted reports that are sent to the Business areas and the operation-accounting reconciliation.

Credit recovery:

- Statements of account are sent to borrowers within 10 days after they are issued for recovery of the credits.

- The recovery of the portfolio is recorded automatically every day, provided that it contains the correct alphanumerical reference of each credit. Otherwise, it is applied monthly upon identification of the deposits.

- Notification to the Business areas on delays in payments of the portfolio generated by their borrowers, by the follow-up system as well as by the area that manages the portfolio.

- Should delays continue in payment and the credit falls into nonperforming portfolio, arrangements are made to furnish the collateral as guarantees maintained by the credit, in conformity with the indications of the business areas.

Follow-up on the credit risk:

- Each one of the credits of the portfolio is followed up on permanently. All that relevant information is gathered that indicates the status of the credits and, if applicable, the guarantees and ensuring that they maintain the minimum proportion that would have been established. Guarantors are followed up on as if any other borrower were involved.

- The credits that will have foreseeable recoverable problems, as a result of the permanent follow-up or for having fallen into the nonperforming portfolio, are subject to a detailed evaluation to determine the possibility of establishing new terms and conditions that increase their probability of being recovered on a timely basis.

INTERNAL CONTROL SYSTEM

In terms of the provisions of the General Provisions applicable to Credit Institutions, the Board of Directors of Banobras, at the proposal of the Audit Committee, approved through Agreement 118/2022, in its Ordinary Session held on December 15, 2022, the updating of the normative document called "Objectives and Guidelines of the Internal Control System of Banobras", the guidelines for its implementation, functions, as well as responsibilities assigned to the different areas and internal bodies that intervene in its instrumentation, application, surveillance, in addition to supervision.

In addition, the maximum Governing Body of BANOBRAS issued instructions to have it disseminated through institutional means; therefore, they were made known to all Bank personnel through a communique by e-mail.

Moreover, Banobras has the following guiding internal control documents, approved by the corresponding bodies:

a) Code of Conduct of Banco Nacional de Obras y Servicios Públicos, S.N.C.;

b) Policies, Standards, Guidelines, Manuals, as well as Provisions for the appropriate employment and use of human resources, materials, and services;

c) Manuals for the organization and operation of the distinct business and support areas in which the objectives, guidelines, policies, responsibilities, procedures, and controls, among other aspects are described in detail in order to document, record, and settle operations, and to safeguard the information and the assets.

d) Policy and procedures manual for money laundering and financing terrorism prevention in order to detect and prevent operations with proceeds of illicit origin and financing terrorism;

e) Policies, Guidelines, Directives, Manuals and Guides on Information Security.

Likewise, by following uniform criteria and in order to rationalize the issue of normative documents that regulate the daily operation of the Bank, continuity was given to workers in 2022, for the update of the documentation of the fundamental processes, in accordance with the purpose of the Bank and its corresponding controls, oriented toward:

- Segregation of duties;
- Clear assignment of responsibilities; and
- Safeguarding of Information and documentation.

In addition, the organizational structure of the Bank is supported by principles of Independence, segregation, as well as the delegation of duties and responsibilities, by adapting itself to business requirements, as well as the regulations issued by supervisory authorities and regulators.

Banobras has the Internal Controllership Management in charge of coordinating and supervising the operation of the Institutional Internal Control System, as well as supporting the areas of Banobras in designing, establishing and/or updating those of developing, designing, and updating the institutional controls that give rise to compliance with internal and external rules, as well as the correct operation of the information processing systems.

Accordingly, Internal Control Agendas (ACI - for its acronym in Spanish) continued to be implemented as one of the self-evaluation tools, which are built starting with comprehensive work that allows for having: a) a series of reagents (prepared beginning with internal- external rules and/or requests from any government agency, supervisor or inspector); b) Periodicity (monthly, quarterly, semi-annually, annually or other); and c) summary of the evidence corresponding to established answers, which allow for fostering, strengthening, and promoting self-control culture.

During fiscal 2022, the Internal Controllership Department continued to promote the application of the ACIs as a self-evaluation tool, through the platform established on the institutional intranet, the participating areas of Trustee Support Processes, Money Laundering and Financing Terrorism Prevention, Derivative Products, Attraction and Investment of Financial Resources, Credit, Trustee Management, Risk Management, Accounting, Information Security, Attraction and Investment of Financial Resources, which had access to the ACIs established for compiling the information corresponding to each reagent.

Moreover, during the reporting period, the proposal authorizing the ACIs was analyzed and presented to the participating areas, which promote the improvement of reagents.

In this sense, it is estimated to carry out the activities to review, propose and strengthen the reagents of each ACI, during the first trimester of 2023. Each responsible anuel verified, provided feedback and gave its approval, as was done in 2022, wich was able to strengthen the ACI reagents.

Banobras has established an Audit Committee in which members of the Board of Directors participate, of which at least one should be independent and preside over it. The Committee meets at least every quarter, and its operation is governed by a manual approved by the Board of Directors. This Committee assists the Board of Directors in supervising the financial statements and appropriate operation of Internal Control.

The Institution also has an independent Internal Audit area that reports to the Audit Committee. The head of the Audit Committee is appointed by the Board of Directors at the proposal of the Audit Committee.

On the other hand, it is important to point out that the competencies and responsibilities related to the Internal Comptroller's Office and the Internal Audit Area are evaluated by the Audit Committee.

In addition, and in order to establish actions for assuring the integrity and ethical behavior of public servants in the performance of their jobs, positions or commissions, an Ethics Committee was created which, among other things, has the following duties:

- Participate in issuing the Code of Conduct, as well as assist in applying and complying with that Code.
- Act as a consulting and advisory body specialized in matters related to their application and compliance.
- Draft observations and recommendations in the event of complaints arising from noncompliance with the Ethics Code, Conduct Code, Integrity Rules, and Equality Policy, and Non-Discrimination of Banobras, which will consist of a nonbinding impartial pronouncement.

37. Recently issued regulatory pronouncements

New pronouncements issued by the CINIF

The CINIF has issued the NIF and Improvements to the NIF that are mentioned below:

MX FRS A-1 "Conceptual Framework of Mexican Financial Reporting Standards"

Pursuant to the update of the Conceptual Framework (CF) of International Financial Reporting Standards, the CINIF considered it advisable to update MX FRS A-1. Conceptual Framework of Mexican Financial Reporting Standards with the objective of maintaining the highest convergence with International Standards. The provisions contained in MX FRS A- 1 will become effective for fiscal years beginning January 1, 2023, and its early application is permitted.

The new MX FRS A-1 repeals various MX FRS that range from MX FRS A-1 "Structure of Mexican Financial Reporting Standards" to MX FRS A-8 "Supplemental Applicability", effective up to December 31, 2022.

Main changes in connection with prior pronouncements

The CF was comprised of eight individual standards. In the updating process due to functionality and practical purposes, those MX FRS were incorporated into MX FRS A-1 "Conceptual Framework of Mexican Financial Reporting Standards" in ten chapters. The main changes per chapter are presented below.

Chapter 10, "Structure of Mexican Financial Reporting Standards" (Prior CF: MX FRS "structure of Mexican Financial Reporting Standards"). The CINIF incorporated the reference to the "Technical Reports", as part of the documents to provide guides in emerging issues.

Chapter 20, "Basic postulates" ("Basic postulates" (Prior CF: MX FRS A-2 "Basic postulates"). The concept of "accounting period" is eliminated since it is considered to be related to the preparation of financial statements rather than an accounting recognition issue, which is incorporated into

Chapter 30.

Chapter 30, "Objective of the financial statements" (Prior CF: MX FRS A-3 "Needs of users and objectives of the financial statements"). The chapter was renamed in order to leave a simpler title. The concept of "accounting period" indicated in the foregoing paragraph is added.

Chapter 40, "Qualitative characteristics of the financial statements" (Prior CF: MX FRS A-4 "Qualitative characteristics of the financial statements"). The hierarchy and description of the qualitative characteristics of the financial statements are restructured, which are divided into: a) fundamentals that are strict compliance, including only the characteristics of relevance and faithful representation; and b) improvement which is complied with as maximum as possible, by incorporating verifiability, timeliness, and understandability.

Chapter 50 "Basic elements of the financial statements" (Prior CF: MX FRS A-5 "Basic elements of the financial statements"). The definitions were modified of asset and liability by eliminating these elements: a) identified by considering it implicit in the item; and b) quantified in monetary terms, since an asset or a liability can exist even though there is no reliable way to quantify it.

Chapter 60, "Recognition" (Prior CF: MX FRS A-6 "Recognition and valuation"). The following concepts were modified: "Initial Recognition" and "Subsequent Recognition" for "Initial Valuation" and "Subsequent Valuation", since recognition is a unique item and it only occurs when it is incorporated for the first time.

Chapter 70, "Valuation" (Prior CF: MX FRS A-6 "Recognition and valuation"). A specific chapter was created for the issue concerning valuation. With regard to MX FRS A-6 above, the Historical Resource valuation base is eliminated and replaced by the valuation base at amortized cost, applicable to an asset, as well as a financial liability. Moreover, the guides were eliminated for determining fair value, since it is a valuation technique and not a valuation base.

The "Compliance value" applicable to liabilities is incorporated, as well as the "Equity Method Value" as part of current value. And in addition, the items of "Replacement Cost Entry Values" and "Replacement Cost" are eliminated, since they are not applicable in particular MX FRS.

Chapter 80, "presentation and disclosure" (Prior CF: MX FRS A-7 "Presentation and disclosure"). Requirements are added for effective communication and the bases for the presentation standards, as to the compensation and grouping of items in the financial statements.

Chapter 90, "Supplemental Applicability" (Prior CF: MX FRS A-8 "Supplemental Applicability". There were no changes with regard to the above standard.

Consequential changes to particular MX FRS and the Glossary derived from the new CF

The issue of the new CF, through MX FRS A-1, gives rise to changes in particular standards indexes, paragraphs, references, and footnotes, which include changes in terminology for maintaining consistence in the new CF, modifications of the references to new qualitative characteristics, as well as the different valuation bases, homologation of the description of basic postulates, and the definitions of the distinct elements of the financial statements, and adjustments to all references to the CF.

Glossary. Pursuant to the issue of the new CF, through the new MX FRS A-1, the following terms are modified:

Assets, association of costs and expenses with revenues, retirement, net changes in stockholders' equity, contributed capital, capital gains, comparability, compensation, understandability, consistence, amortized cost, acquisition cost, cost and expense, book accrual, economic duality, economic entity, profit-making entity, cash inflows, balance between qualitative characteristics, statement of activities, statement of changes in stockholders' equity, statement of cash flows, statement of comprehensive income, Statement of financial position, financial statements, relative importance, complete information, income, professional judgment, conceptual framework, going concern, particular MX FRS, Mexican Financial Reporting Standards, timeliness, orientations to MX FRS (OMX FRS), other comprehensive income (OCI), liability, forecasting and possible confirmation values, probable, recycling, recognition, cost and benefit ratio, relevance remote, true representation, comprehensive income, cash flow risk, cash outflows, internal transformations, account unit, user of the financial statements (user), net gain or loss, realization value and net realization value, value in use, value per equity method, valuation, opening valuation, subsequent valuation, truth, and verifiability.

And the following are added:

Grouping, nominal amount, restated amount, classification, effective communication of the financial statements, accounting, unexecuted contract, historical cost, criterion or prudential approach, external events internal events, interpretations of MX FRS (IMX FRS), maintenance of financial capital, movement of reserves, neutrality, notes to the financial statements, other events, technical reports, supplemental applicability, current value, and compliance value.

Improvements to MX FRS 2023. They are issued by the CINIF as part of the updating process and they include punctual changes in MX FRS that can or cannot bring about changes.

The improvements to MX FRS that generate accounting changes are as follows:

MX FRS B-11 *"Disposition of long-lived assets and discontinued operations"*. The treatment of the difference that can arise between the carrying value of long-lived assets to settle a dividend or a capital reimbursement and the amount of the dividend or capital reimbursement paid is set out in detail, by setting forth that this difference must be recognized in retained earnings. Moreover, disclosure standards are included about these transactions.

MX FRS C-11 "Stockholders' equity" Adjustments were made to MX FRS C-11 to maintain consistency, as a consequence of the modifications to MX FRS B-11. It further sets forth that a reimbursement of contributed capital must be recognized as a liability based on MX FRS C-12, by decreasing contributed capital. Moreover, it sets for that if the carrying value of assets delivered differs from the amount agreed upon of redeemed shares, the difference must be allocated to retained earnings. Finally, it sets forth in detail that at the time when any dividend is declared, except for the issue addressed in paragraph 43.3.4 (in reference to a stock dividend), the entity must recognize it as a liability and be allocated to retained earnings.

MX FRS B-15 *"Foreign currency translation"*. Some adjustments were made concerning the application of the practical solution that allows entities to issue their financial statements in a reporting currency equal to the recording currency, even when both differ from the functional currency. It further sets out that this exception is permitted for those entities that neither have subsidiaries nor a controlling company, nor are subsidiaries nor are joint ventures. In both assumptions, they do not have users who require financial statements prepared considering the effects of translation to a functional currency, provided that financial statements are involved exclusively for legal and tax purposes.

Improvements to MX FRS that do not generate accounting changes are modifications relative to detailed definitions that help establish a clearer and more comprehensive regulatory statement of the issue, and they are:

MX FRS B-10 *"Impact of inflation"*. The reference of the 8% annual average was eliminated for considering an inflationary economic environment to avoid confusion, since what must be taken into account is if accumulated inflation of the three prior annual fiscal years is equal to or exceeds 26%.

MX FRS C-2 "Investment in financial instruments". An introduction paragraph is added that sets out the difference regarding IFRS 9, concerning the initial valuation of investments in financial instruments when the value of the consideration is significantly different from fair value, and that difference arises from unobservable data. In conformity with MX FRS C.2, those financial instruments are maintained at the price of the consideration. In addition, they must be valued at fair value, in accordance with IFRS 9.

MX FRS C-3 ***"Accounts Receivable"***. The application of this standard to "other receivables" is set out and the references to the caption of "trade accounts receivable" are eliminated.

- **Changes in the Provisions of the National CNBV**

The resolution that modifies the Provisions published on March 13, 2020 was published in the DOF on September 23, 2021, whereby the facility granted by the CNBV to lending institutions was announced, in order for the contractual interest rate to continue to be used for the accrual of interest of the loan portfolio for fiscal 2022, as well as the application of the straight-line method for the recognition of origination fees and the accrual of transaction costs, as set forth in accounting criterion B-6 "Loan portfolio" in effect up to December 31, 2021.

Pursuant to official letter DCI/101000/4006/2021, dated December 10, 2021, the Institution notified the CNBV of the application of the deferment of the Effective Interest Rate (EIF) beginning January 1, 2023. The effect of that adoption was recognized in the caption of accumulated results with the description of, in the accounting changes in the amount of $44.