

GRUPO FINANCIERO HSBC, S.A. DE C.V. 4Q 2023 FINANCIAL RESULTS HIGHLIGHTS

- For the 12 months to 31 December 2023, profit before tax was MXN12,699m, a decrease of MXN1,246m or over 8.9% compared with MXN13,945m for the same period in 2022.
- Net income for the 12 months to 31 December 2023 was MXN9,542m, a decrease of MXN1,693m or 15.1% compared with MXN11,235m for the same period in 2022.
- Total operating income excluding loan impairment charges for the 12 months to 31 December 2023 was MXN56,142m, an increase of MXN3,415m or 6.5% compared with MXN52,727m for the same period in 2022.
- Loan impairment charges for the 12 months to 31 December 2023 were MXN12,925m, an increase of MXN4,367m or 51.0% compared with MXN8,558m for the same period in 2022.
- Administrative and personnel expenses for the 12 months to 31 December 2023 were MXN30,771m, an increase of MXN303m or 1.0%, compared with MXN30,468m for the same period in 2022.
- The cost efficiency ratio was 54.8% for the 12 months to 31 December 2023 compared with 57.8% for the same period in 2022.
- At 31 December 2023, net loans and advances to customers were MXN451.2bn, an increase of MXN48.5bn or 12.0% compared with MXN402.7bn at 31 December 2022.
- At 31 December 2023, total stage 3 loans were MXN12.7bn, representing 2.7% of gross loans compared to December 2022 when stage 3 loans were MXN12.7bn representing 3.0% of gross loans.
- At 31 December 2023, total deposits were MXN523.6bn, an increase of MXN8.4bn, or 1.6%, compared with MXN515.2bn at 31 December 2022.
- Return on equity was 11.6% for the 12 months to 31 December 2023, whereas for the 12 months to 31 December 2022 it was 14.7%.
- At 31 December 2023, the bank's total capital adequacy ratio was 15.8% and the common equity tier 1 capital ratio was 11.4%, compared with 15.5% and 11.5%, respectively, at 31 December 2022.

Grupo Financiero HSBC's financial results for the 12 months to 21 December 2023 as reported to HSBC Holdings plc, our ultimate parent company, are prepared in accordance with International Financial Reporting Standards ('IFRS').

Profit before tax for the period was MXN14,282m, an increase of MXN2,554m compared with MXN11,728m¹ for the same period in 2022. The increase is mainly driven by higher net interest income, net fees and trading income, insurance results, partially offset by higher loan impairment charges.

The main differences between Mexican GAAP and IFRS results for the 12 months to 31 December 2023 relate to differences in loan impairment charges, accounting for fair value adjustments on financial instruments, effective interest rate, deferred profit sharing and additional tier 1 (AT1).

Overview

Economic activity grew 0.1% quarter on quarter in Q4 2023, according to preliminary figures. At the sector level, the performance was mixed; services rose 0.1% quarter on quarter, while industrial production remained unchanged. In contrast, agriculture activities fell 1.1%. On an annual basis, the economy grew 2.4%, using seasonally-adjusted figures. Agriculture, industrial output and services grew 0.1%, 3.1% and 2.2% respectively, in annual terms.

Inflation slightly increased to 4.8% year over year in January from 4.7% in December. Non-core component guided the increase standing at 5.2% year-over-year in January from 3.4% in December. Meanwhile, core inflation pressures continue to ease decelerating to 4.8% year-over-year from 5.1% in December, mainly driven by an improved performance of tradable goods prices and the easing in some services.

During Q4 2023, Mexico's central bank (Banxico) kept the monetary policy rate at 11.25%.

Financial Performance – Key Metrics

- Grupo Financiero's profit before tax for the 12 months to 31 December 2023 was MXN12,699m, a decrease of MXN1,246m or over 8.9% compared with MXN13,945m for the same period in 2022.
- Net interest income for the 12 months to 31 December 2023 was MXN42,806m, an increase of MXN2,297m or 5.7% compared with MXN40,509m for the same period in 2023. The increase is mainly explained by higher interest rate environment and the in the growth of retail loan portfolio.
- Loan impairment charges for the 12 months to 31 December 2023 were MXN12,925m, an increase of MXN4,367m or 51.0% compared with MXN8,558m for the same period in 2022. The increase is mainly driven by loan portfolio growth and higher amount of releases on certain individual clients on the Local Corporate segment during 2022.
- Net fee income for the 12 months to 31 December 2023 was MXN10,276m, an increase of MXN1,398m or 15.7% compared with MXN8,878m for the same period in 2022 mainly driven by increase in commercial activity.
- Trading income for the 12 months to 31 December 2023 was MXN3,276m, a decrease of MXN121m or 3.6% compared with MXN3,397m for the same period in 2022, driven by fixed income business and decrease in Mexican government bond prices that affect the valuation of the portfolio.

¹ Restated profit before tax considering IFRS 17 retrospective implementation. Profit before tax disclosed previously was MXN12,313m.

Grupo Financiero HSBC, S.A. de C.V. 4Q 2023 Financial Results Highlights/3

- Other operating income/(expenses) for the 12 months to 31 December 2023 was a loss of MXN 1,484m, an increase of MXN460m or 44.9% compared with a loss of MXN1,024m for the same period in 2022, main driver was an increase insurance technical reserves partially offset by higher recoveries.
 - Administrative and personnel expenses for the 12 months to 31 December 2023 were MXN30,771m, an increase of MXN303m or 1.0%, compared with MXN30,468m for the same period in 2022 mainly due to higher staff expenses, higher IT costs and an increase in marketing expenses.
- +
- The cost efficiency ratio was 54.8% for the 12 months to 31 December 2023 compared with 57.8% for the same period in 2022.
 - The effective tax rate was 24.9% for the 12 months to 31 December 2023, compared with 19.4% reported for the same period in 2022. The variation is mainly driven by inflationary effects and the reassessment of deferred tax made in 2022.
 - At 31 December 2023, net loans and advances were MXN451.2bn showing an overall increase of MXN48.5bn, or 12.0% compared with MXN402.7bn. The increase is driven by 18.1% growth in Wealth and Personal Banking (WPB) portfolio compared to 31 December 2022 with mortgage loans growing 17.9%, additionally to an increase in Commercial Banking (CMB) portfolio by 5.4%.
 - Credit cost ratios² and loan loss reserves ratios³ as of December 2023 were 2.8% (2.0% as of December 2022) and 3.8% (3.7% as of December 2022) respectively. The increase is mainly driven by loan portfolio growth and higher amount of releases on certain individual clients on the Local Corporate segment during 2022.
 - Return on equity was 11.6% for the 12 months to 31 December 2023, whereas for the twelve months to December 2022 was 14.7%.
 - Total stage 3 loans at 31 December 2023 were MXN12.7bn representing 2.7% of gross loans. Following the HSBC approach to stage 3, of the 2.7%, 0.3% relates to loans with an indication of unlikelihood to pay despite not being 90 days past due and 2.4% relates to loans with 90 or more days past due. As of December 2022, stage 3 loans were MXN12.7bn and 3.0% as a percentage of gross loans, of which 0.6% were related to loans with an indication of unlikelihood to pay despite not being 90 days past due and 2.4% were related to loans with 90 or more days of past due.
 - At 31 December 2023, total loan loss allowances were MXN17.8bn, an increase of MXN2.1bn or 13.7% compared with MXN15.6bn to same period in 2022. The total coverage ratio (allowance for loan losses divided by stage 3 loans) was 139.7% at 31 December 2023 compared with 122.6% at 31 December 2022.
 - At 31 December 2023, total deposits were MXN523.6bn, an increase of MXN8.4bn or 1.6%, compared with MXN515.2bn at 31 December 2022, mainly driven by higher time deposits partially offset by lower demand deposits.
 - On 29 December 2023, Grupo Financiero HSBC paid a dividend of MXN 2,000m, supported by the dividend received from the bank for the same amount, total of the year was MXN 4,470m.
 - On 06 December 2023, HSBC Mexico (bank) issued MXN 6,962.4m Tier 2 capital instruments on a private placement to HSBC Latin America Holdings (UK) Limited to comply with the local

² Credit Cost Ratio: Loan Impairment charges/Gross Loans.

³ Loan Loss Reserve Ratio: Loan Loss Reserves/Gross Loans.

Grupo Financiero HSBC, S.A. de C.V. 4Q 2023 Financial Results Highlights/4

TLAC (Total Loss-Absorbing Capacity) applicable to DSIBs (Domestic Systemically Important Banks). DSIBs must maintain an additional capital buffer of 6.5% of RWAs or 3.75% of the Leverage Exposure measure, whichever is higher. From December 2023 DSIBs have to meet 50% of the requirement. This will increase by an additional 25% for each of the remaining two years, so that it is fully implemented by December 2025.

- HSBC Bank Mexico ('the bank') profit before tax for the 12 months to 31 December 2023 was MXN10,459m, a decrease of MXN1,750m or 14.3% compared with MXN12,209m for the same period in 2022 mainly driven by higher loan impairment charges and lower trading income partially offset by an increase in net interest income and net fees.
- HSBC Bank Mexico net income for the 12 months to 31 December 2023 was MXN7,998m, a decrease of MXN 1,939m or 19.5% compared with MXN9,937m for the same period in 2022.
- HSBC Bank Mexico net interest income for the 12 months to 31 December 2023 was MXN42,256m an increase of MXN2,282m or 5.7%, compared with MXN39,974m for the same period in 2022.
- At 31 December 2023, the bank's total capital adequacy ratio was 15.8% and the common equity tier 1 capital ratio was 11.4%, compared with 15.5% and 11.5%, respectively, at 31 December 2022. HSBC's global strategy is to work with optimal levels of capital with a reasonable buffer above regulatory limits.
- The profit before tax of Grupo Financiero HSBC's insurance subsidiary for the 12 months to 31 December 2023 was MXN1,632m, an increase of MXN433m or 36.11% compared with MXN1,199m for the same period in 2022, mainly driven by the increase in premiums and higher financial income partially offset by higher technical reserves.

HSBC Mexico S.A. ('the bank') is a subsidiary of Grupo Financiero HSBC, S.A. de C.V. (Grupo Financiero HSBC) and is subject to supervision by the Mexican Banking and Securities Commission. The bank is required to file financial information on a quarterly basis (in this case for the period ended 31 December 2023) and this information is publicly available. Given that this information is available in the public domain, Grupo Financiero HSBC has elected to file this release. HSBC Seguros, S.A. de C.V. Grupo Financiero HSBC (HSBC Seguros) is Grupo Financiero HSBC's insurance subsidiary.

Results are prepared in accordance with Mexican GAAP (Generally Accepted Accounting Principles).

Business highlights⁴ (Amounts described include the impact of internal cost and value of funds applied to different lines of business).

The description of line of business is as follows:

Wealth and Personal Banking (WPB): Line of business serving individuals that includes mostly consumer products, among which are credit cards, personal and car loans, as well as mortgage loans and deposits. Additionally, a group of individuals with business activity is also served, whose main products are credit lines for working capital; as well as a specific group of small businesses, with term loan products and financial services related to checking accounts and cash management.

Commercial Banking (CMB): Line of business serving local companies, multinationals and Institutional clients with financials needs in Mexican pesos and other currencies like loans for working capital, term loans, financing products for export activities; Treasury management, including current accounts, payments, corporate cards and liquidity management. Additionally, it offers Global Markets solutions to serve a local and domestic client with simple financial needs and solutions that require a global presence in other financial markets.

Market & Securities Services (MSS): Line of business specialized in financial markets and securities custody, which offers a diversity of money market and capital markets products, including liquidity instruments, foreign exchange, government and corporate debt, derivatives and structured products, as well as intermediation in the stock market. MSS provides solutions mainly to governments, central banks, local corporations, international investors, institutional investors and, in general, financial market participants.

Derived from the merge of CMB and GB into one business model under CMB on January 2023, 2022 figures were restated for comparison purposes.

Wealth and Personal Banking (WPB)⁵

Profit before tax for the twelve months to 31 December 2023 was of MXN5,114m a decrease of MXN536m compared with the MXN5,650m for the same period in 2022, mainly driven by higher loan impairment charges and administrative expenses, partially offset by higher revenues. With Markets Treasury allocation, profit before tax was MXN3,979m.

Total revenue for the twelve months to 31 December 2023 was MXN40,668m, an increase of MXN4,753m or 13.2% compared with MXN35,915m for the same period of 2022. This is mainly driven by higher spreads across the deposits portfolio, coupled with higher volumes in credit cards and payroll loans.

Loan impairment charges for the twelve months to 31 December 2023 were MXN12,866m, an increase of MXN2,817m or 28.0% compared with MXN10,049m for the same period in 2022, mainly explained by provisions derived from higher loan portfolio, coupled with a risk expansion in Credit Cards.

Administrative and personal expenses for the twelve months to 31 December 2023 were MXN22,953m, an increase of MXN2,504m or 12.2% compared with MXN20,449m for the same period of 2022, driven by higher IT and marketing strategic investments, coupled with staff costs increase due to inflation.

At 31 December 2023, Net loans and advances to customers were MXN249.0bn, it is showing an overall increase of MXN38.2bn or 18.1% compared with MXN210.8bn for 2022. This increase is

⁴ Markets Treasury total loss before tax for the twelve months of 2023 was MXN2,268m. Since June 2020, Markets Treasury is allocated out to the global businesses, to align them better with their revenue and expense and for the twelve months of 2023 loss before tax allocation by business was MXN-1,136m to WPB, MXN-929m to CMB and MXN-203m to MSS.

⁵ WPB does not include Insurance results which was MXN1,632m in profit before tax as of 31 December 2023

Grupo Financiero HSBC, S.A. de C.V. 4Q 2023 Financial Results Highlights/6

mainly in Cards with a 33.0% compared to the same period last year, followed by Mortgage and Auto (17.9% and 40.6% respectively).

At 31 December 2023, Total deposits were MXN288.4bn, an increase of MXN9.8bn or 3.6% compared with MXN278.5bn for 2022, mainly driven by time deposits with a 5.1%, followed by Saving Accounts and Current Accounts (7.9% and 1.8% respectively).

In 2023 we remodelled 40% of WPB branches. During 2024 we will continue branches' transformation to ensure more modern and comfortable spaces for our clients, integrating technologies that give our customers different options for doing business.

Commercial Banking (CMB)

Profit before tax for the twelve months to 31 December 2023 was MXN8,598m, a decrease of MXN119m or 1% compared with MXN8,717m for the same period in 2022 mainly explained by the impact on loan impairment charges given lower amount of credit reserves releases this year, partly offset by higher net interest income, net fee income and lower administration and personnel expenses. With Markets Treasury allocation, profit before tax was MXN7,669m.

Total revenue for the twelve months to 31 December 2023 was MXN13,981m, an increase of MXN893m or 7% compared with MXN13,088m for the same period in 2022, mainly explained by higher spreads from deposits, derived from a rising interest rate environment coupled with increase on fee income and trading FX resulting from commercial activity.

Loan impairment charges for the twelve months to 31 December 2023 were MXN59m, an increase of MXN1,550m compared with a release for MXN1,491m for same period in 2022, driven by a higher amount of releases on certain individual clients on the Local Corporate segment during 2022.

Administration and personnel expenses for the twelve months to 31 December 2023 were MXN5,313m, a decrease of MXN560m or 10% compared with MXN5,873m for the same period in 2022, mainly driven by the optimization of the structure following the merger of wholesale business.

At 31 December 2023, net loans and advances to customers were MXN202bn, an increase of MXN10.3bn or 5.4% compared with MXN191.7bn for the same period in 2022, explained by the strategic optimization of the loan portfolio last year and active materialisation this year with International Corporates and Multinational clients.

At 31 December 2023, total deposits were MXN212.8bn, a decrease of MXN4.5bn or 2% compared with MXN217.3bn for the same period in 2022, mainly to improve the cost of funding base

HSBC participated alongside with other book runners on the issuance of three bonds:

- FIBRA EDUCA: first reopening and second successful issuance in the local market for MXN3,983m comprising 2.7yrs SLB Floating Rate Notes and 9.8yrs SLB Real Fixed Notes.
- FONADIN: On NOV23 HSBC acted as Joint Bookrunner on the 7th bond issuance in the local market and participated again in DEC23 reopening issuance for a total volume of MXN16,186m, making FONADIN to remain as one of the top issuers in the local market for the last 2 years.
- BID INVEST: Local market issuance for MXN3,500m comprising 3yrs Social Floating-rate Notes, welcoming that represented the Company's largest local transaction ever executed in the local market and third social bond priced in the MX market.

Markets and Security Services (MSS)

Profit before tax for the twelve months to 31 December 2023 was MXN 421m, a decrease of MXN 473m which represents 53% compared with MXN 894m in 2022. The decrease is mainly explained by higher revenues distributed to CMB and WPB impacting the reported figures (revenue allocation changes after the merger of CMB and GB) in MSS. Additionally, during the last quarter of 2023, MSS was impacted by lower trading revenues as result of a decrease in government bond positions and higher credit reserves in derivatives positions. With Markets Treasury allocation, profit before tax was MXN 217m.

Administrative and personal expenses for the twelve months to 31 December 2023 were MXN 985m, an increase of MXN41m or a 4% compared with MXN 944m for the same period in 2022 mainly driven by inflation impacting staff costs.

Awards and Recognitions

Best Bank for ESG

HSBC México was recognized by the British magazine Euromoney as the Best Bank for ESG in Mexico thanks to the comprehensive work that the financial institution has carried out by incorporating sustainability as a central element in operations, services and decision making. Through collaboration, the bank works to reduce its environmental impact, support its clients in the transition to a net-zero carbon economy and reduce investors' exposure to risk with the implementation of solid policies.

Leading Bank in Treasury Services

HSBC Mexico was recognized as the leading bank in the country in treasury services for companies, according to the survey on the subject carried out each year by the British magazine Euromoney. This is the second consecutive year in which HSBC Mexico obtains this recognition granted by treasurers and financial managers of different non-financial institutions (companies) consulted in the survey.

About HSBC

Grupo Financiero HSBC is one of the leading financial groups in Mexico with 865 branches, 5,583 ATMs and 14,001 employees as of 31 December 2023.

For more information, visit www.hsbc.com.mx.

HSBC Holdings plc, the parent company of HSBC, is headquartered in London. HSBC serves customers worldwide from offices in 62 countries and territories. With assets of US\$3,039bn at 31 December 2023, HSBC is one of the world's largest banking and financial services organisation.

For further information, contact:

Mexico City

Lyssette Bravo

External Communications

Telephone: +52 (55) 5721 2888

UK

+44 (0)20 7991 3643

Hong Kong

+852 2822 4908

London

Press Office

+44 (0) 20 7991 8096

pressoffice@hsbc.com

USA

+1 224 880 8008

Consolidated Income Statement – GROUP twelve months ended 31 December 2023

Grupo Financiero HSBC, S.A. de C.V. 4Q 2023 Financial Results Highlights/8

Figures in MXN Millions

	Group	
	31-Dec-23	31-Dec-22
Interest income	82,966	63,749
Interest expense	(40,160)	(23,240)
Net interest income	42,806	40,509
Loan impairment charges	(12,925)	(8,558)
Risk-adjusted net interest income	29,881	31,951
Fees and commissions receivable	12,863	11,383
Fees payable	(2,587)	(2,505)
Premiums, Technical Provisions, Claims and Other Liabilities (Insurance)	1,268	967
Trading income	3,276	3,397
Other operating income (expense)	(1,484)	(1,024)
Total operating income	43,217	44,169
Administrative and personnel expenses	(30,771)	(30,468)
Net operating income	12,446	13,701
Share of profits in equity interest	253	244
Profit/(loss) before tax	12,699	13,945
Income tax	(3,157)	(2,710)
Net income before discontinued operations	9,542	11,235
Discontinued Operations	-	
Net income	9,542	11,235

Consolidated Income Statement – BANK twelve months ended 31 December 2023

Grupo Financiero HSBC, S.A. de C.V. 4Q 2023 Financial Results Highlights/9

Figures in MXN Millions

	Bank	
	31-Dec-23	31-Dec-22
Interest income	82,455	63,270
Interest expense	(40,199)	(23,296)
Net interest income	42,256	39,974
Loan impairment charges	(12,925)	(8,558)
Risk-adjusted net interest income	29,331	31,416
Fees and commissions receivable	12,137	10,801
Fees payable	(3,066)	(3,037)
Trading income	2,643	3,452
Other operating income (expense)	(389)	(368)
Total operating income	40,656	42,264
Administrative and personnel expenses	(30,446)	(30,299)
Net operating income	10,210	11,965
Share of profits in equity interest	249	244
Profit/(loss) before tax	10,459	12,209
Income tax	(2,461)	(2,272)
Net income before discontinued operations	7,998	9,937
Discontinued Operations	-	-
Net income	7,998	9,937

Consolidated Balance Sheet – 2023 (Comparatives)

Grupo Financiero HSBC, S.A. de C.V. 4Q 2023 Financial Results Highlights/10

Figures in MXN millions

	Group		Bank	
	31 Dec 23	31 Dec 22	31 Dec 23	31 Dec 22
Assets				
Cash and cash equivalents	66,981	63,461	66,814	63,326
Margin accounts	112	588	112	588
Financial Investments	146,217	146,486	130,293	135,754
Trading financial investments	56,150	57,657	46,465	53,064
Financial investments hold to collect or sale	64,796	69,423	58,557	63,284
Financial investments hold to collect principal and interest (securities) (net)	25,271	19,406	25,271	19,406
Reverse repurchase agreements	46,044	74,645	46,044	74,645
Derivative transactions	28,588	36,968	28,588	36,968
Loan and advances - credit risk stage 1				
Commercial loans	213,316	200,481	213,316	200,481
Consumer loans	96,581	81,736	96,581	81,736
Mortgage loans	140,630	119,211	140,629	119,211
Total loan portfolio with credit risk stage 1	450,527	401,428	450,526	401,428
Loan and advances - credit risk stage 2				
Commercial loans	626	213	626	213
Consumer loans	2,799	2,116	2,799	2,116
Mortgage loans	2,112	1,646	2,112	1,646
Total loan portfolio with credit risk stage 2	5,537	3,975	5,537	3,975
Loan and advances - credit risk stage 3				
Commercial loans	6,449	7,645	6,449	7,645
Consumer loans	2,885	2,015	2,885	2,015
Mortgage loans	3,375	3,081	3,375	3,081
Total loan portfolio with credit risk stage 3	12,709	12,741	12,709	12,741
Loan Portfolio measured at Fair Value				
Gross loans and advances to customers	468,773	418,144	468,772	418,144
Expected credit losses	(17,758)	(15,619)	(17,758)	(15,619)
Gross loans and advances to customers - Insurance	162	137	-	-
Total net loans and advances to customers	451,177	402,662	451,014	402,525
Premium receivables	2,710	2,234	-	-
Accounts receivables from reinsurers and rebonding companies	94	52	-	-
Other accounts receivable (net)	36,120	34,993	36,197	35,283
Foreclosed assets	351	251	351	251
Long term assets held for sale	10	10	10	10
Property, Furniture and Equipment (Net)	6,756	6,542	6,757	6,542
Property, Furniture and Equipment (Net) – Rights-of-Use Assets (RoU)	3,322	2,070	3,317	2,063
Prepayments and other assets	6,181	5,749	6,140	5,666
Long-term investments	1,519	1,428	1,475	1,387
Deferred income tax asset (net)	6,930	6,697	6,797	6,542
Intangible assets (net)	7,575	7,304	7,575	7,304
Intangible Assets (Net) - Rights of Use Assets	270	212	-	-
Goodwill	955	955	-	-
Benefits Receivable in Securitization Transactions	10	10	10	10
Total assets	811,922	793,317	791,494	778,864

Consolidated Balance Sheet - 2023 (continued)

Figures in MXN millions

Grupo Financiero HSBC, S.A. de C.V. 4Q 2023 Financial Results Highlights/11

	Group		Bank	
	31 Dec 23	31 Dec 22	31 Dec 23	31 Dec 22
Liabilities				
Deposits	523,612	515,205	523,914	516,008
Demand deposits	350,068	364,834	350,357	365,637
Time deposits	163,035	137,403	163,048	137,403
Bank bond outstanding	8,574	11,293	8,574	11,293
Global deposit account without movements	1,935	1,675	1,935	1,675
Bank deposits and other liabilities	15,450	23,941	15,450	23,941
On demand	7,007	13,424	7,007	13,424
Short-term	5,141	6,235	5,141	6,235
Long-term	3,302	4,282	3,302	4,282
Pending Securities to pay	-	-	-	-
Technical reserves	14,835	9,544	-	-
Repurchase agreements	28,307	28,178	28,307	28,178
Collateral sold	41,959	35,202	41,960	35,202
Reports (credit balance)	32,809	31,090	32,809	31,090
Securities lending	9,150	4,112	9,151	4,112
Derivative Financial Liabilities	29,588	35,940	29,588	35,940
Trading Derivatives	29,579	35,931	29,579	35,931
Hedging Derivatives	9	9	9	9
Accounts Payable from reinsurers and rebonding companies	12	16	-	-
Lease liabilities	3,329	2,357	3,324	2,350
Other payable accounts	39,607	38,826	38,927	38,192
Settlement accounts	11,518	12,472	11,497	12,389
Income tax and employee profit sharing payable	3,959	8,568	3,959	8,568
Contributions for future capital increases	1,333	986	1,265	939
Sundry creditors and other accounts payable	22,797	16,800	22,206	16,296
Financial instruments qualifying as liabilities (subordinated debt)	25,401	21,137	25,401	21,137
Subordinated debentures outstanding	-	-	25,401	21,137
Income tax liabilities	135	282	45	110
Employee benefit liabilities	5,311	4,537	5,219	4,469
Deferred credits and receivable in advance	1,909	1,611	1,909	1,526
Total liabilities	729,455	716,776	714,045	707,053
Equity				
Paid in capital	43,373	43,373	38,318	38,318
Capital stock	6,218	6,218	6,132	6,132
Additional paid in capital	37,155	37,155	32,186	32,186
Other reserves	42,774	37,923	42,635	38,057
Capital reserves	1,244	1,244	14,510	13,510
Retained earnings - prior years	31,988	25,444	20,127	14,610
Net income	9,542	11,235	7,998	9,937
Result from the mark-to-market of available- for-sale securities	(916)	(1,510)	(754)	(1,315)
Result from cash flow hedging transactions	(199)	(1,121)	(199)	(1,121)
Adjustment in the employee pension	(2,568)	(2,133)	(2,551)	(2,135)
Total Controlling Interest's	82,464	76,532	77,449	71,804
Minority interest in capital	3	9	-	7
Total Shareholder's Equity	82,467	76,541	77,449	71,811
Total liabilities and equity	811,922	793,317	791,494	778,864

Grupo Financiero HSBC, S.A. de C.V. 4Q 2023 Financial Results Highlights/12

Figures in MXN millions

	Group		Bank	
	31-Dec-23	31-Dec-22	31-Dec-23	31-Dec-22
Memorandum Accounts				
Third party accounts	78,917	29,512	-	-
Clients current accounts	887	343	-	-
Custody operations	78,030	29,169	-	-
Proprietary position	3,582,700	4,706,120	3,381,459	4,514,334
Irrevocable lines of credit granted	342,013	306,915	342,013	306,915
Goods in trust or mandate	200,803	190,297	200,803	190,297
Trusts	199,934	189,459	199,934	189,459
Mandate	869	838	869	838
Goods in custody or under administration	345,276	1,415,426	345,276	1,415,426
Collateral received by the institution	55,524	80,626	55,524	80,626
Collateral received and sold or delivered as guarantee	49,337	36,344	49,337	36,344
Suspended interest on stage 3 loans	726	596	726	596
Other control accounts	2,589,021	2,675,916	2,387,780	2,484,130
Total Memorandum Account	3,661,617	4,735,632	3,381,459	4,514,334

Consolidated Statement of Changes in Shareholders' Equity

Figures in MXN millions

Group	Capital contributed	Capital reserves	Retained earnings – prior years	Valuation of financial investments hold to collect or sale	Valuation of cash flow hedging transactions	Remeasurement of defined benefits to employees	Total controlling interest	Minority interest	Total equity
Total Balances at 01 Jan 2023	43,373	1,244	36,679	(1,510)	(1,121)	(2,133)	76,532	9	76,541
Adjustments for accounting changes	-	-	-	-	-	-	-	-	-
Cash Dividends*	-	-	(4,691)	-	-	-	(4,691)	-	(4,691)
Capitalization of other equity items	-	-	-	-	-	-	-	(6)	(6)
Comprehensive Income:									
Net Income	-	-	9,542	-	-	-	9,542	-	9,542
Other comprehensive income:									
Valuation of financial investments hold to collect or sale	-	-	-	594	-	-	594	-	594
Valuation of cash flow hedging transactions	-	-	-	-	922	-	922	-	922
Remeasurement of defined benefits to employees	-	-	-	-	-	(435)	(435)	-	(435)
Total	-	-	9,542	594	922	(435)	10,623	-	10,623
Final balances as of 31 December 2023	43,373	1,244	41,530	(916)	(199)	(2,568)	82,464	3	82,467
*Include AT1 coupon payments									

Consolidated Statement of Changes in Shareholders' Equity

Figures in MXN million

Bank	Capital contributed	Capital reserves	Retained earnings – prior years	Valuation of financial investments hold to collect or sale	Valuation of cash flow hedging transactions	Remeasurement of defined benefits to employees	Total controlling interest	Minority interest	Total equity
Total Balances at 01 Jan 2023	38,318	13,510	24,547	(1,315)	(1,121)	(2,135)	71,804	7	71,811
Adjustments for accounting changes	-	-	-	-	-	-	-	-	-
Movements inherent to the shareholders' decision:									
Dividends Declared (including AT1 coupon payments)	-	-	(3,420)	-	-	-	(3,420)	-	(3,420)
Capitalization of other equity items	-	-	-	-	-	-	-	(7)	(7)
Reserve Movements	-	1,000	(1,000)	-	-	-	-	-	-
Comprehensive Income:									
Net Income	-	-	7,998	-	-	-	7,998	-	7,998
Other comprehensive income:									
Valuation of financial investments hold to collect or sale	-	-	-	561	-	-	561	-	561
Valuation of cash flow hedging transactions	-	-	-	-	922	-	922	-	922
Remeasurement of defined benefits to employees	-	-	-	-	-	(416)	(416)	-	(416)
Participation in comprehensive income of other entities	-	-	-	-	-	-	-	-	-
Total	-	1,000	7,998	561	922	(416)	9,065	-	9,065
Final balances as of 31 December 2023	38,318	14,510	28,125	(754)	(199)	(2,551)	77,449	0	77,449

Grupo Financiero HSBC, S.A. de C.V. 4Q 2023 Financial Results Highlights/15

Consolidated Statement of Cash Flow – Group

Figures in MXN millions

31 Dec 2023

Profit/(loss) before taxes	12,699
Adjustments for items associated with investing activities	3,907
Depreciation of property, furniture and equipment	1,219
Amortization of intangible assets	2,941
Participation in the net result of other entities	(253)
Adjustments for items associated with financing activities	3,434
Interest associated with bank deposits and other liabilities	1,060
Financial instruments qualifying as liabilities (subordinated debt)	2,374
Changes in items related to operating activities	(10,790)
Bank deposits and other liabilities	(9,552)
Margin accounts	476
Financial investments	1,308
Reverse repurchase agreements	28,601
Derivative transactions (assets)	9,918
Loan Portfolio (net)	(48,514)
Debtors of re-insurance	(475)
Recoverable amounts for reinsurance and refinancing (net)	(42)
Change in benefits from receiving securitization operations	-
Change in inventories	-
Other accounts receivable (net)	(294)
Foreclosed assets (net)	(100)
Deposits	7,736
Technical Reserves	5,291
Repurchase agreements	129
Collaterals sold or given in guarantee	6,758
Derivative transactions (liabilities)	(6,351)
Accounts payable for reinsurers	(4)
Change of assets/liabilities for employee benefits	355
Other accounts payable	6,363
Other provisions	(8,066)
Income tax payments	(4,327)
Net cash flows from operating activities	9,250
Investing activities:	
Payments for the acquisition of property, furniture and equipment	(1,400)
Proceeds from the sale of property, furniture and equipment	-
Collections of cash dividends from permanent investments	154
Payments for acquisition of intangible assets	(4,548)
Other receipts from investing activities	-
Other payments from investing activities	-
Net cash flows from investing activities	(5,794)
Financing activities:	
Payments of bank loans and other organizations	(2,208)
Cash Dividend Payments	(4,470)
Proceeds from the issuance of financial instruments that qualify as liabilities	6,962
Collections for the issuance of financial instruments that qualify as liabilities	(220)
Net cash flows from financing activities	64
Increase/decrease in cash and equivalents	3,520
Cash and equivalents at beginning of period	63,461
Cash and equivalents as of 31 December 2023	66,981

Grupo Financiero HSBC, S.A. de C.V. 4Q 2023 Financial Results Highlights/16

Consolidated Statement of Cash Flow - Bank

Figures in MXN millions

	31 Dec 2023
Profit/()loss before taxes	10,459
Adjustments for items associated with investing activities	3,911
Depreciation of property, furniture and equipment	1,219
Amortization of intangible assets	2,941
Other adjustments for items associated with investing activities	(249)
Adjustments for items associated with financing activities	3,434
Interest associated with bank deposits and other liabilities	1,060
Financial instruments qualifying as liabilities (subordinated debt)	2,374
Changes in items related to operating activities:	(9,857)
Bank deposits and other liabilities	(9,552)
Margin accounts	476
Financial investments	6,203
Reverse repurchase agreements	28,601
Derivative transactions (assets)	9,918
Loans and advances (net)	(48,489)
Change in benefits from receiving securitization operations	-
Other accounts receivable (net)	(915)
Foreclosed assets (net)	(100)
Other Operating Assets	(1,894)
Deposits	7,014
Repurchase agreements	129
Collaterals sold or given in guarantee	6,758
Derivative transactions (liability)	(6,351)
Adjustments for employee benefits	(158)
Other operational liabilities	750
Change of assets/liabilities for employee benefits	856
Other accounts payable	448
Other provisions	(3,551)
Income tax payments	(3,551)
Net cash flows from operating activities	7,947
Investing activities:	
Payments for the acquisition of property, furniture and equipment	(1,400)
Proceeds from the sale of property, furniture and equipment	-
Collections of cash dividends from permanent investments	154
Payments for acquisition of intangible assets	(4,548)
Other payments from investing activities	-
Net cash flows from investing activities	(5,794)
Financing activities:	
Lease liability payments	(2,207)
Cash Dividend Payments	(3,200)
Proceeds from the issuance of financial instruments that qualify as liabilities	6,962
Payments associated with financial instruments that qualify as a liability	(220)
Net cash flows from financing activities	1,335
Increase/decrease in cash and equivalents	3,488
Cash and equivalents at beginning of period	63,326
Cash and equivalents as of 31 December 2023	66,814

Changes in Mexican accounting standards

Introduction

Grupo Financiero HSBC consolidated financial statements are prepared in accordance with the accounting standards applicable to financial group holding companies in Mexico, they are issued by the National Banking and Securities Commission (CNBV for its acronym in Spanish). Those accounting standards are based on the Financial Reporting Standards (NIF for its acronym in Spanish) issued by the Mexican Financial Reporting Standards Council (CINIF for its acronym in Spanish), but including specific rules for accounting, valuation, presentation and disclosure for particular financial institutions transactions, which in some cases are different.

Subsidiaries financial statements are prepared in accordance with accounting standards issued by CNBV applicable to banks, excepting by the Insurance Company (HSBC Seguros) which are prepared in line with accounting standards issued by National Insurance and Bonding Commission (CNSF for its acronym in Spanish).

The recent changes or new developments in accounting standards issued by CNBV or CINIF applicable to the bank as principal subsidiary of Grupo Financiero HSBC, are described below:

I. Improvements of NIF 2023 issued by CINIF applicable to Financial Institutions.

CINIF issued a document called “Improvements of NIF 2023”, which mainly includes the following changes and improvements:

Improvements involving accounting changes.

NIF B-11 “Non-current assets held for sale and discontinued operations” – Inclusion of the accounting treatment for the difference between the carrying amount of non-cash assets distributed to owners and the carrying amount of dividends declared or return of capital, which should be recognised in retained earnings. This Mex GAAP accounting treatment differs from IFRIC 17 Distributions of Non-cash Assets to Owners, where it indicates that the difference should be recognised in profit or loss.

NIF B-15 “The Effects of Changes in Foreign Exchange Rates” – Some clarifications were included related to the practical expedient to elaborate financial statements in the reporting currency without the translation process from transactional to functional currency, when both reporting and transactional currencies are the same. They aim to fully clarify that the practical expedient is only applicable for legal and taxation financial statements for entities that have no subsidiaries, parent or neither they are subsidiaries or joint ventures and, in both cases, their users of financial information does not need financial impacts from the translation to functional currency of financial statements.

Improvements which not originate accounting changes.

NIF B-10 “Inflationary effects in financial reporting” – Inclusion of some amendments to remove the annual inflationary average of 8%, as an indicator of an inflationary economy for Mex GAAP purposes, clarifying that only if the inflationary annual percentage in Mexican economy from the last three years in aggregated is equal or over 26%, the accounting requirements for inflationary economy are triggered.

NIF C-3 “Investment in financial instruments” – In the section of the converge with IFRS 9 was added a paragraph to clarify the difference in the accounting treatment in cases when there is a significant difference in consideration paid for the financial instrument and its fair value (only if the fair value is determined based on unobservable data), because for Mex GAAP the consideration paid should be considered as its fair value while for IFRS 9, the fair value obtained from unobservable data is

considered in the initial recognition of the financial instrument and the difference is recognised on deferral basis in profit or loss.

NIF C-3 “Accounts receivables” – The inclusion of some modifications to remove references to “commercial accounts receivables” in order to avoid misunderstandings in the terms used by this NIF, given that the correct accounting term is “Accounts receivables”. Also, it was added a clarification to emphasize that “Other accounts receivables” are also in its scope.

Additionally, amendments in the wording of some NIF and NIF Glossary to include the updates and modifications from the new NIF A-1 “Conceptual framework” adopted from 2023.

No significant financial impacts were observed in the implementation of all these changes.

II. New NIF A-1 “Conceptual framework”.

On December, 23th, 2021, the CINIF approved this new NIF with the objective to converge with the Conceptual Framework of IFRS recent issued by IASB in 2018. The main changes in comparison with previous standard are:

- The structure of previous Conceptual Framework was changed from eight different standards to integrate in a single NIF divided by nine chapters.
- Chapter 10 – NIF structure – Technical Reports issued by CINIF will be part of the accounting guidance in emergent topics.
- Chapter 20 –Accounting Principles – The concept of accounting period, which was previously related to accrual basis principle, was reallocated into the “Chapter 30 – Financial Statements objective”, given its closely relation with the preparation of financial statements.
- Chapter 30 – Financial Statements objective – The title was modified.
- Chapter 40 – Qualitative characteristics of financial statements – A restructure of qualitative characteristics was done, now being “Fundamental”: relevance and faithful representation and “Enhancing”: understanding and comparability.
- Chapter 50 – Basic elements of financial statements – Amendments in assets and liabilities definition.
- Chapter 60 – Recognition – No relevant changes.
- Chapter 70 – Measurement bases – Changes in the structure to separate Measurement and Recognition. Incorporation of amortised cost as the basis for historical cost valuation for financial instruments, and equity method and fulfilment value method as the basis of current valuation.
- Chapter 80 – Presentation and disclosure – Incorporation of requirements related to effective communication and the addition of guidance to offset and recognize in aggregate basis items in the financial statements.
- Chapter 90 – Supplementary process of Mexican GAAP – No changes.

This NIF is in place from 2023. HSBC does not have relevant impacts in adoption.

III. New NIF B-14 “Earnings per share”.

On December, 15th, 2022, the CINIF approved the new NIF B-14 which superseded Bulletin B-14. The implementation of the new NIF B-14 does not carry accounting changes at initial adoption, given it only includes some clarifications to ease the calculation of earnings per share (UPA by its acronym in Spanish).

The structure of the NIF is modified to clarify the calculation of UPA, separating standards applicable to profit or loss attributable and shares to be considered in the calculation of weighted-average of UPA Basic and Diluted.

Some clarifications are included in the standards related to the calculation of UPA Basic regarding to dividends on preference shares.

In the standards related to the calculation of UPA Diluted some clarifications are included to understand in a better way if the effect from financial instruments that originates potential ordinary shares is diluted or undiluted.

Clarification related to the inclusion in the calculation of UPA Basic of the ordinary shares that would be issued upon the conversion of a mandatorily convertible equity instrument, classified as such under NIF C-12 “Financial instruments with liability and equity features” from the date in which the agreement was entered into.

This NIF is in place from 2023. HSBC does not have relevant impacts in adoption.

IV. INIF 25 “International Tax Reform Basel II”.

On December, 14th, 2023, the CINIF approved the new INIF 25 which is applicable to parent and subparent that include financial information from group entities subject to Basel II or subsidiaries subject to pay complementary tax originated by those rules.

Basel II complementary tax is applicable to entities that conform a Group of multinational companies (“GEM” its acronym in Spanish) which annual revenues were equal or greater than EUR \$750 million based on the holding entity financial statements, in two of the last four annual reporting, excluding governmental, international organisations, charity organisations and pension funds. The purpose of this complementary tax is to ensure that the taxable rate is at least 15% in each jurisdiction where the GEM has operations, requiring that the holding entity pays the complementary tax -on its home jurisdiction- over subsidiary profits which local taxable rate is below 15%. Basel II complementary tax was expected to be in force in 2023, but each country has discretion about the time in which it will modify its local laws to adhere.

Based on this, INIF 25 provides a temporary relief in the accounting application of NIF D-4, Income Taxes related to deferred taxes originated by Basel II complementary tax, which will be in force until CINIF issues a contrary pronouncement. This is consistent with IASB amendment of IAS 12 Income taxes issued in May 2023 to help companies respond to international tax reform. This NIF is in place retrospectively to 2023. HSBC does not have relevant impacts in adoption.

V. Special accounting rules issued by National Banking Commission applicable to borrowers affected by the OTIS hurricane in the state of Guerrero during October, 2023.

CNBV issued temporary special accounting rules “the benefit programme” applicable to borrowers of retail, mortgages and commercial loans affected by natural disaster occurred in the state of Guerrero in October 2023. Loans are subject to receive the benefit programme if they are classified for

Grupo Financiero HSBC, S.A. de C.V. 4Q 2023 Financial Results Highlights/20

accounting purposes as stage of credit risk 1 or 2 on its balance sheet at October, 24th, 2023 and documentation is completed no later than April, 30th, 2024.

In summary, "the benefit programme" granted by HSBC provides to borrowers partial or total payment holidays until 6 months, which could involve a change in original term of the loans, extending their maturity for the same period. During the benefit programme period, loans will not be flagged as restructure transactions and they will still be reported on their current stage 1 or 2 for accounting purposes.

Important to highlight that "the benefit programme" HSBC granted is adhered to criteria established by CNBV, with the purpose to provide a relief to those borrowers affected by this natural disaster.

Financial Impacts

At the reporting end period, the outstanding balance of loans adhered to the programme are:

Loan Category	Gross loans carrying amount (MXN \$m)	Gross Loans in the benefit programme (MXN \$m)	Gross Loans in the benefit programme/ Gross Loans carrying amount %	Balances of principal and interest deferred (MXN \$m)
Corporate	220,391	17	0.008%	0.4
Consumer	102,265	231	0.226%	7
Mortgages	146,117	278	0.190%	4
Total	468,773	526		11.4

Below, an estimation of the financial impacts under Mex GAAP calculated at the reporting period end, assuming that loans would have not been adhered to the programme:

Loan Category	Balances transfer from stage 1 to 2 (MXN \$m)	Balances transfer from stage 2 to 3 (MXN \$m)	Additional Increase in loan loss provision (MXN \$m)	Interest not recognised in B/S and PnL (MXN \$m)
Corporate	17	-	0.2	-
Consumer	224	6	8	0.3
Mortgages	276	2	22	0.0
Total	517	8	30.2	0.3

Note: These impacts were calculated assuming that customers with temporary payment reliefs became past due since the day the benefit was granted

At 31 December 2023, the bank's total capital adequacy ratio without the special accounting rules would be 14.77%, therefore the impact is 1 basis point. For this calculation, the impacts on the weighted assets subject to credit risk were taken into account, net result from the differential in the expected credit losses.

Differences between Mexican GAAP and International Financial Reporting Standards (IFRS) Grupo Financiero HSBC

HSBC Holdings plc, the ultimate parent of Grupo Financiero HSBC, reports its results under International Financial Reporting Standards (IFRS). Set out below is a reconciliation of the results of Grupo Financiero HSBC from Mexican GAAP to IFRS for the twelve months ended at 31 December 2023 and an explanation of the key reconciling items.

	<u>31 Dec 2023</u>
<i>Figures in MXN millions</i>	
Grupo Financiero HSBC – Profit / (loss) before tax under Mexican GAAP	12,699
Differences arising from:	
Loan impairment charges and other differences in presentation under IFRS	1,647
Effective Interest Rate	881
Valuation of defined benefit pensions and post-retirement healthcare benefits, including post-employment benefits	260
IFRS16	100
Fair value adjustments on financial instruments	(102)
Deferred profit sharing	(207)
Other insurance adjustments ⁶	(310)
AT1 Valuation	(459)
Others	(227)
Profit before/(loss) tax under IFRS	14,282

⁶ Includes technical reserves and effects from IFRS 17

Summary of key differences between results as reported under Mexican GAAP and IFRS

1. Valuation of defined benefit pensions and post-retirement healthcare benefits, including post-employment benefits

Mexican GAAP

The present value of Defined Benefit Obligations “DBO” (including indemnity benefits for other reasons that restructuring), are calculated at the reporting date by the schemes’ actuaries through the Projected Unit Credit Method using a corporate/governmental bond rate as a base rate to determine the discount rate applicable.

The net costs recognize in the income statement mainly comprises the current service cost, plus the unwinding of the discount rate on plan liabilities (the discount rate used could be either corporate or government rate as long as it is applicable on consistent way), less the expected return on plan assets. Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred), as well as the effects of changes in actuarial assumptions.

According to Mexican Accounting standard, actuarial gains and losses could be: 1) recognized separately in “shareholders’ Other Comprehensive Income in the bank’s consolidated financial statements” and recycling through P&L over the average working life of the employees or 2) fully recognized in income statement, as election of the entity.

IFRS

The main differences between Mexican GAAP and IFRS comprise:

- Actuarial gains/losses are recognized in OCI under IFRS not subject to be recycling or recognize totally in income statement.
- The measurement of the present value of DBO is based on a Mexican governmental rate bond, instead of a corporate rate bond.
- There are not included in DBO the indemnity benefits given that they are not considered as part of benefits granted from past services.

2. Effective interest rate (EIR) adjustments

Mexican GAAP

From 2023, HSBC completed the adoption of the EIR method, where the commissions charged to the borrowers and incremental costs incurred to third parties at loan inception are recorded into a deferred credit account (liability) and as an asset, respectively. Both are part of loan net value to determine the effective interest rate and being recognised using the EIR method in the net interest income during the expecting life of the financial instruments in accordance with CNBV accounting standards.

Nevertheless, there are still some differences in EIR calculation for Mex GAAP in comparison with IFRS, such as: the exception of the use of EIR in credit cards and the possibility to not adjust the original EIR for those loans which the interest rate is resettable during their expected life.

Important to highlight that HSBC applies the EIR for those loans originated at or after the implementation date (01Jan23) using a portfolio approach in accordance with the CNBV accounting standards and transitory provisions applicable to the implementation.

IFRS

After initial recognition, an entity shall measure the loan at its amortised cost using the effective interest rate “EIR” method without exceptions.

The amortised cost of the financial instrument includes any premium discounts of fees paid and or received as result of the recognition of the financial asset.

3. Loan impairment charges and other differences in presentation under IFRS

Mexican GAAP

Loan impairment charges are calculated following the rules issued by the CNBV which since 2022 adopted an approach of Expected Credit Losses (ECL), nevertheless it will maintain some differences with IFRS methodology. Such rules establish different methodologies for ECL provisions for each type of loan.

IFRS

The impairment requirements under IFRS 9 are based on ECL concept that requires the recognition of provisions on a timely basis and forward-looking manner. ECL is determined via a two-step approach: 1) where the financial instruments are first assessed at inception regarding to for their relative credit deterioration, and 2) on ongoing basis followed by the measurement of the ECL (which depends on the credit deterioration categories).

Financial instruments with status of “performing” are considered in “Stage 1”. Financial instruments which are considered to have experienced a significant increase in credit risk are in “Stage 2”. Financial instruments for which there is objective evidence of impairment (in default or credit deterioration) are in “Stage 3”. Financial instruments that are credit-impaired upon initial recognition are POCI, remaining this category until derecognition.

4. Fair value adjustments on financial instruments

Mexican GAAP

Since 2022, the NIF B-17 “Fair Value Measurement” requires that for those derivatives and financial instruments that should be measured at fair value, its value should be adjusted to reflect factors that would not be captured by the internal methodology of valuation, such as Debit and Credit Value Adjustments (CVA/DVA) and the use of a price into the Bid/Offer differential, as long as those financial instruments are included in the scope of article 175 Bis 3 of CNBV regulation.

IFRS

Fair Value Adjustments (“FVAs”) include additional factors than those specified in Mexican GAAP.

5. Deferred-profit sharing (PTU diferida)

Mexican GAAP

Accounting standards requires that a Deferred-Employee Profit Sharing (Deferral PTU) shall be calculated applying a similar model to deferred income tax (assets and liabilities method). It is derived from temporary differences between the accounting profit and income to be used to calculate the profit sharing. Given the changes issued on 23 April 2021 by the Mexican government to introduce a threshold in the calculation of the “Employee Profit Sharing” (PTU by its acronym in Spanish) (the more favourable to the employee between a cap of three months of employee’s wages or the average of PTU paid during the three last periods), some modifications to determine the new procedure to calculate deferral PTU:

Step 1.- Calculate the temporary differences between accounting and taxable for PTU at the reporting end period.

Step 2.- Determine the PTU rate expected to be incurred during the following years, based on financial and tax projections or the PTU incurred in the current period.

Step 3.- PTU rate x temporary differences amount.

An asset or liability for the Deferral PTU would be recognized according to method of comparing assets and liabilities sets out in Income Tax standards applicable in Mexico (*NIF D-4 "Income Taxes"*).

IFRS

Deferral PTU is not allowed to recognize under IFRS.

6. Insurance liabilities and Insurance premiums recognized on an annualised basis

Mexican GAAP

Insurance liabilities are determined based on Solvency II methodology established by local regulator (CNSF) which considers best estimate liability and a risk margin concept. The best estimate is based on up-to-date credible information and realistic assumptions and aims to represent a total liability valuation aligned to its expected pricing transfer to the customer. The risk margin is calculated as the cost of providing an amount of capital equal to 10% of the Solvency Capital Requirement necessary to support the insurance obligations over their lifetime.

Insurance premiums are recognized under annualization criteria which is based in determine the total premium for the coverage period (one year), consequently total premium is recognized since the moment where insurance contracts are written.

IFRS

For insurance liabilities starting in 2023, INMX applied IFRS17 accounting standard, that Aims to align insurance accounting with the principles applied by other industries, while recognizing the specific complexities of the contracts, their long term nature, and the linkages to underlying assets (especially for participating contracts).

Establish Globally consistent standard, setting a framework for measuring insurance contracts consistent with observable market parameters, and based on best estimate assumptions, the. Profits recognised in line with service provision (i.e. over the life of the contract) and included Enhanced and more granular disclosures.

7. Perpetual Subordinated Debt – AT1

Mexican GAAP

The perpetual subordinated debt is considered as compound financial instrument, i.e. principal meets financial liability definition while coupon of interest meets equity definition given the discretionary in its payment by the issuer according to "NIF C-11 Share Capital" and "NIF C-12 Financial Instruments with liability and equity features". Based on this, principal is measured as a financial liability at amortised cost and coupons are accounted as dividends from retained earnings. Given the instrument is denominated in US\$, principal is recognized as foreign currency transaction and reported using the closing rate. Exchange rate changes are recognized in income statement. On the other hand, coupons of interest are recognized in equity when holder has the right to receive payment at historical cost (equity is non-monetary item under "NIF B-15 "The Effects of Changes in Foreign Exchange Rates").

IFRS

Considering the features of the instruments, the perpetual subordinated debt (AT1) is measured according to IFRS 9 as an equity instrument. As such, equity instruments are not re-measured subsequent to initial recognition. As the AT1 is classified and accounted for as equity, coupons interest payments are accounted as dividends from retained earnings and recognized when the holder's right to receive payment is established. No subsequent gains or losses are recognized in profit or loss in respect of the AT1 during its life. For instruments in a foreign currency which is different to functional currency of the issuer, no retranslation is applicable (equity is a non-monetary item under IAS 21 – The Effects of Changes in Foreign Exchange Rates).